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MONDAY JANUARY 4 1999

World Markets 1998 The winners and losers Page 28



Maths and medicine The formula for healing wounds Page 16



Cost of flying Air fares become more transparent **Business Travel, Page 14** Mr Danone, Junior Riboud emerges from father's shadow Profile, Page 12

FT expands

statistics

to cover

currency

new single

By Martin Dickson, Financial Editor

The birth of the euro means

substantial change to the statis-ties published by the Financial

Times and today's paper intro-

duces the first of these new fea-

Currencies. We will be publishing a table daily showing the

spot and forward rates of the

euro against more than 30 of the

world's most beavily traded cur-

rencies. This will appear for the

first time tomorrow, following

today's first day of official trad-

ing in the euro. It will appear on

the Euro Prices page, in place of the FT Synthetic Euro rates

table, which we have published

since last May as a broad proxy

for the euro. On this page today we publish a table of spot rates

for the euro against many cur-

rencies, based on market quotes

immediately before the new year

boliday and euro conversion

· Money. Today we begin show-

ing the two interest rates battling

to establish themselves as the

euro-zone benchmark: BBA Euro

Libor and Euribor. We will also

be publishing rates for Eonia,

which covers overnight un-

weekend, Euro Prices, Page 31

The main changes are

WORLD NEWS

Saddam vows to resist 'illegal' no-fly zones in Iraq

President Saddam Hussein attacked the no-fly zones over lraq as "illegal" and said his people would resist them. Iraq also confirmed that it wanted the United Nations humanitarian mission in the country to stop employing US and British citizens. Page 4

Bonn split over nuclear tax plan Gerhard Schröder, the German chancellor, faces difficulties within his coalition government after the Green party-controlled environment ministry backed plans to tax nuclear fuel rods.

Bin Laden speaks on bombines Osama Bin Laden, the exiled Saudi billionaire, appears to admit in an interview with Time magazine that he instigated the terrorist bombing of two US embassies in Africa. Page 4

Yemen failed to warn of threat A government official has conceded that Yemen failed to warn foreign embassies that terrorist activity was increasing in the south of the country. Page 4

Bomb targets Pakistan PM A bomb outside Lahore killed four people and triggered concems over the security of Nawaz Sharif, the Pakistani prime minister. The blast blew up a bridge shortly before Mr Shartf was due to drive over it. Page 8

Senate backs Clinton trial plan The prospect of a quick trial for President Bill Clinton in the US Senate grew as senators backed a proposal to speed up proceedings. Page 20: Rise in defence budget proposed, Page 3

UN urged to stay in Angola The United Nations must not puli out of Angola despite the recent increase in hostilities and the shooting down of two UN-chartered aircraft, the UN's special representative to the country said. Page 7

Microsoft trial to resume The Microsoft antitrust trial is set to resume today with a battle over testimony from the US govemment's latest witness - a software industry executive who plans to call for court regulation of Microsoft's Windows operating system business. Page 3

Minimal growth seen for Britain Britain will see minimal economic growth over the next two years, but is likely to avoid recession this year, according to forecasts by a consultancy. Page 10

US struck by severe winter storm A severe winter storm paralysed much of the US over the weekend. Chicago's O'Hare International airport was closed by the worst blizzard seen in the city since 1978. Page 3

Mexico scraps tortilla subsidy Under severe budgetary pressure, the Mexican government has scrapped its last remaining control on food prices a subsidy on tortillas estimated to cost \$1bn a year. Page 3

knishter trading hearings under way Court hearings began yesterday in Dhaka, the Bangladesh capital in a trial of 34 financiers and businessmen charged with insider trading and manipulating the stock market. Page 8

Cell for biennial World Cup Sepp Blatter, president of the International Association Football Federation, has called for the World Cup finals to be played every two years. Page 7

Probe into mass grave in Kosovo International monitors in Kosovo said they were investigating had been discovered in the troubled Serbian province.

Israel arrests cult members Israeli police said they had arrested eight members of a US Christian cult who had planned to carry out violence ahead of the millennium to hasten the second coming of Jesus.

BUSINESS NEWS

Frankfurt set to gain from pan-European stockmarket link-up

The pan-European equity market alliance between the Frankfurt and London stock exchanges opens today, with the German partner set to be the clear early beneficiary. The accord is expected to widen later in the year to include up to six more European exchanges. Page 21; Markets in 1998, Pages 28 and 29

General Motors, the world's biggest vehicle maker, launched Its boldest drive to revive Cad-illac as a global luxury brand by unveiling a radical concept car for the Detroit motor show. Page 20; General Motors special report, Page 22

France is to modernise its bond markets this year following the launch of the euro. Individual investors from euro-zone countries will be able to buy inflationlinked government bonds as part of the reforms. Page 26

Smaller clearing firms on London's derivatives exchange are expected to face a huge outflow of capital today as independent traders withdraw funds in the wake of the biggest trading scandal since the Barings collapse in 1995. Page 21

Artémis, the holding company of the Printemps retailing group based in France, is in talks to acquire Japan's Aoba Life Insurance, Japanese press reports said. Artémis is understood to have offered to pay Y40bn to Y50bn (\$355m-\$443m). Page 26

Pacific Internet, the online service provider owned by the Singapore government, is planning to cash in on the US internet share price boom with an IPO within a fortnight. It will be the first internet offering in the US by an east Asian company. Page 21

Allied Domeco, the UK spirits and pubs group, is poised to sell Cantrell & Cochrane, its Irish drinks distributor, for more than £500m (\$800m) to BC Partners, the venture capital company. Page 24

The volume of new issuance of American Depositary Receipts -Concary Snare Ottenings DV eign companies - tumbled in 1998, hitting its lowest level in nearly a decade. Page 21

Donaldson, Lufkin & Jenrette, the US investment bank indirectly controlled by Axa, the French insurer, is today expected to launch its euro-zone equities business, coinciding with the first trading day of the single currency. Page 26

Kirch, the privately held German broadcasting group, is expected today to unveil details of a wideranging reorganisation that could pave the way for outside investors to loin as partners in its media activities. Page 24

Strutt & Parker, the UK chartered surveyor, has acquired William Hillary Leisure and Hotels, a smaller rival specialising in hotel and leisure property. Page 24

State-owned commercial banks in China may create special institutions to take on loans that have gone bad. China Construction Bank, one of four governmentbacked commercial banks, is establishing a separate arm to assume non-performing assets. Page 26

Celicom, the Israeli cellular phone operator, plans to issue shares on Wall Street in the first quarter of 1999 in an Initial public offering that would value the company at \$3.5bn. Page 26

Bayerische Landesbank Girozentrale bought a 7.98 per cent stake in the Hungarlan For-eign Trade Bank (MKB). Page 24

World Equity Markets

The latest trende and data from more: than 50 national markets at a glance

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For subscription information places contact: Subscription Sales Department, The Financial Tyrics Limited, werk Bridge, London, SE1 941.

Euro starts with cautious trading as

Asia opens

By George Graham in London and Gwen Robinson in Sydney

Europe launched its challenge to the US dollar's dominance of the world's currency markets early today, with the official start of Asian trading in the euro.

The foreign exchange dealing rooms of Australia's largest banks began their first official trades in Europe's new currency at 5am, Sydney time.
After official celebrations of

the euro's birth in the early hours of Friday morning, yesterday's trading marked its coming to life as the new currency for 11 countries with a combined population of 290m and economic output approaching that of the US. Economists expect the euro to gain strength against the dollar and the pound over the coming months, but the first days of trading are thought likely to be

The first hour of official euro trading in Australia was almost all inter-bank trading in US dollars/euros, rather than Austra-

ment systems are working.

uneventful, as dealers make sure

other banks' trading and settle-

lian dollars. Trading patterns displayed what traders described as a "largely ceremonial" compo nent and the US dollar did not move substantially from its opening price of \$1,1747.

The euro was valued at \$1.16675 when the European Commission fixed conversion rates at midday on December 31 for the 11 currencies that joined the euro. Some analysts expect it to move above \$1.20 in the next month or two.

Although the euro is expected eventually to become an international reserve almost as important as the dollar, central bank managers have shown no signs of hurrying to move their foreign exchange reserves into the Euro-Worldwide, banks have been

sweating all weekend to convert bank balances and securities denominated in the currencies of the 11 countries that have adopted the euro, and to make sure their systems are ready for the start of trading in Europe today. After months of preparation and rehearsals, the process appeared yesterday to have gone faster and more smoothly than



nained to be done to ensure a smooth birth for the new curre

even the most optimistic fore-

The European Central Bank said: "In the monitoring of conversion activities conducted by the European System of Central Banks during the changeover ing in euros in the best possible weekend, no incidents have been reported that may impair the smooth start of the system."

Banks, stock exchanges and securities clearing houses were also pleased with the conversion

Next stop. Maastricht in the

Netherlands. I headed for the

Puck Satiin cheese and wine

shop, whose counters were piled

high with round, golden goudas

and edams. Surely in the town

that gave its name to the treaty

propelling Europe towards a sin-

girl behind the counter. The

But Jean-Claude Trichet, gover-

nor of the Bank of France, warned: "The Bank of France calls on all participants in the Paris market to remain mobilised and vigilant to ensure that markets and systems start tradconditions on the morning of January 4.

Flying start, Page 2; The euro arrives, Page 9; Philip Stephens, Page 18; Welcome to the euro-zone and Editorial Comment, Page 19;

secured lending in the euro-zone inter-bank market. Currencies and Money, Page 30 Bonds. Today we begin publication of a new table designed to track the expected development of a large, liquid euro-zone bond market. The Euro-Zone Bonds table shows the price and yield of broadly representative bonds in seven categories, including high

briefe, and for a variety of credit ratings, Euro Prices, Page 31 Equities. From today, trading in the shares of companies in monetary union countries will be quoted in euros. Today's FT gives a foretaste of this: we have restated the closing prices of these shares, immediately before the Emu conversion weekend, in euros at their official nationa conversion rates. We have also reorganised our share information service to create a separate long-suffering lady holding my nowhere the slightest hint that rency - seemed an unlikely trail- Emu countries section. World cheque. "You have to fill it out in two days earlier the Netherlands blazer for the euro. I congrat- Stock Markets, page 37. Across had locked its currency with 10 ulated the supervisor. "What's the paper, the ecu - which converted into the euro on a one-to-one basis on January 1 is being replaced by the euro.

Not just a notion of shopkeepers believe that the birth of Europe's who took my order. "No, but I

sighting.

By Earma Tucker in Brussels

At 5.55pm on the first shopping day of 1999, I made retail history. After a long quest across European frontiers, I finally did what no one had done before. One packet of tea bags, one

pair of wool-mix socks and a thermal vest - 21 euros. Three shop assistants watched in awed stlence as I filled out my cheque. cross the counter of Marks and Spencer in Brussels' Rue Neuve. "Non, non," interrupted the supervisor. A hitch. I had put the wrong symbol in the currency box. One ripped-up cheque later. the transaction was completed

and I left the store triumphant. Had it not been for this success. 1 might have started to

single currency – at midnight on will take Belgian francs." December 31 - was just a fuzzy New Year dream. My hunt for the euro, not vet

circulating as note or coin but up and running for non-cash transactions, had begun appallingly. At the Extra Super Stark hypermarket in Eschweiler, Germany, there was not a curo in sight. The line of people at the check-These were the first euros to out was getting twitchy. Who was this mad woman trying to pay for her bratwurst, sauerkraut story was the same at the Hema and Riesling in euros?

D-Marks. We haven't even changed our tills yet." I retreated to McDonald's.

"Euros?" said Herr Gafoor, who

other EU countries. "coffee shop" - an establishment store."

where marijuana is freely available. Success at last? "One gramme of Moroccan

four and a half euros," said the suave dope dealer. "I haven't changed the prices on the menu, but I'll take euros from today." Buoyed by the coffee shop's confirmation that the euro really did exist. I headed back to Brusgle currency, I would make a sels, capital of the European Union. As I headed towards the

"Oh no," laughed the young city's landmark Grande Place I spied a giant tinsel eum symbol. Marks and Spencer - flagship superstore. All prices marked in retailer for a nation which is not "Noch nicht," insisted the guilders and Belgian francs, but even part of the new single curironic." he replied (in French), "is Feeling desperate, I sniffed a that it's happening in an English

yield issues and German pland-

Soros wants IMF to be world central bank

By Peter Marsh in London

The International Monetary Fund should be converted into a global central bank to reduce the risks of new world economic crises, George Soros, the billionaire financier and philanthropist, says

today in the Financial Times. The newly constituted IMF would act as a lender of last resort to member countries believed to have sound banking systems and economic policies. It would also regulate the international flow of credit to reduce the chances of outbreaks of economic turmoil such as those trig-

gered in the past 18 months by vents in Asia and Russia. Mr Soros says his proposal is needed to tackle what he perceives as the "inherently unstable" nature of global financial

markets.
But he concedes that reaching the international consensus to establish such a powerful institution would not be easy.

In the article, Mr Soros implies a two-tier membership system for the reformed IMF. The top tier a "select group" of the 182 existing members - would accept "protection" from the world economic system by agreeing that the IMF take over as lender of last resort, even if financial markets were unwilling to do so.

Although most large, developed countries would qualify for the see the IMF and World Bank. top tier of membership, an important group of developing nations could join in, if they "choose to Enhanced role, Page 4

accept the discipline" of having the IMF operate in this way In a controversial part of his proposal, Mr Soros holds out the prospect of the newly empowered IMF punishing institutions that lent to countries that later got into financial difficulties. Punishments could include compulsory conversion of debt into equity or enforced repayment delays.

"By putting would be creditors on notice [of potential sanctions] the IMF would prevent excessive capital inflows from developing," according to Mr Soros, who in the past year has lost hundreds of millions of dollars through positions taken in Russia and Malaysia, and who has been a severe critic of IMF policies. As well as requiring agreement

by central banks such as the new European Central Bank and the US's Federal Reserve – which might prove reluctant to share some of their powers - Mr Soros's new scheme would require a large increase in the "auotas" or membership fees paid by the IMF's member countries. This would almost certainly run into political difficulties. Officials from the Group of

Seven leading industrialised countries are discussing a relatively small step toward reforming the architecture of the global financial system: a merger of the ministerial committees that over-

Personal View, Page 18

World News: International 2-9

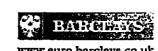
Europe 2, Asia Pacific 6, UK 10

Comment & Analysis: 18,19 Companies & Finance: 21-26

Travel/Education: 14,15 Markets: 37-39 Full contents and Lext back page

CONTENTS

Another new year arrives. But with it this time a brand new currency. If you're in business, it could be worth being with the bank that is in more European countries than any other. So, as you ring in the new currency, don't forget Barclays. One of Europe's oldest acquaintances.



SINGLE CURRENCY BANKS AND MARKET INSTITUTIONS REPORT SMOOTH CHANGE-OVER

Euro conversion is off to a flying start

By George Graham and Wolfgang Münchau in Frankfurt

The daunting task of converting bank balances for the conversion weekend and securities portfolios to in the City of London, said the euro passed off smoothly over the weekend, with several banks and market institutions finishing their couversion processes ahead of schedule.

"We have been drinking champagne since Saturday afternoon," said Bill Grant, Emu project director at Citibank, the banking arm of the US's Citigroup financial smoothly," he said yester-

England, which has been coordinating preparations the Bank had sent most of its own conversion staff home and most private sector banks had done likewise. No one had called on the Bank over the weekend to arbitrate or resolve any issues. "Today has been a

huge milestone. There are

further milestones to come,

but we judge that it will go

David Clementi, deputy he expected traders to be governor of the Bank of cautious at the start of trading in the new currency today. Many banks found their

conversion processes ran more quickly and more smoothly than in dress rehearsals

"For the most part we were done quite early on Saturday night. I brought the 2 o'clock meeting on Sunday forward to 12 o'clock, and that was our sign-off," said Joanna Meager, Emu chief at Salomon Smith Barney, the investment banking arm day. Mr Clementi added that of Citigroup.

with their euro preparations. schedule.

"No incidents have been reported that may impair the smooth start of the system, said the European Central

One of the keys to the weekend's success was the work of central market insti-Euroclear, the two securities depositories which handle the clearing of most international bonds and many other

banks, stock exchanges and spent \$25m preparing for the financial institutions conversion, said all dead-programme director, said cash is flowing smoothly to reported similar success lines had been met ahead of

Euroclear said 600 people working in shifts had redenominated more than 3,500 debt securities and converted around 13,500 equity quotations. Redenomination of securities balances and conversion of trades entered in national currencies at the end of last year were completed by 9pm on Friday, well ahead of the target of 8am on Saturday.

more than Ibn Items of historical data had been converted seven hours ahead of Other pieces of the market

infrastructure, such as the Swift bank messaging system and the Target pay- systems, so banks must ments network run by the ECB, also appeared to be ready for operations today.

But most banks are not Euro launch, Page 9 letting their Emu teams

stand down yet. Banks are watching not At Reuters, the market only to see whether their Page 19

By George Parker and Jim Kelly

The Liberal Democrats,

Britain's centre party, yes-

prime minister, to show

leadership and prepare the

UK for an early referendum

on participation in the euro-

Menzies Campbell, the par-

ty's foreign affairs spokes-

man, said Mr Blair's 179-seat

majority in the House of

Commons, the powerful

lower chamber of parlia-

ment, gave him the chance

to lead the debate on the

pean single currency.

terday urged Tony Blair, currency.

Across Europe, central ident of Cedel Group, which information services com- trading partners have probthe right places. Until now any D-Mark payments would automatically flow to Frankfurt, while French francs would move to Paris. But euros could end up in one of 18 different payment

ensure they have enough

Owen announced formally

he would join campaigners

trying to stop UK participa-

tion in a single European

why Britain should stay out-

know when they are being

sold a pig in a poke and i

think one of the reasons

they are still very strongly

against the euro is that they know there is more on offer.

Effectively this is a big step

ing euro bank notes.

nations worth more than a

total of £100m (\$168m). "Why

are these notes being printed

said party constitutional

"It looks like the govern-

A spokesman for the Trea-

ioin. All central banks in

ment's trying to prejudge

if we are not in the euro?"

spokesman Nigel Evans.

the referendum.

"People aren't stupid, they

side the euro-zone.

liquidity in the right places. Conspicuous absence, Page 18 Editorial Comment, Page 19 Welcome to the euro-zone,

winton plan or defence managers may face further test

By Jane Martinson, Investment Correspon

Fund managers went to work yesterday to check the euro conversion process had not changed their portfolios beyond recognition.

After an army of systems specialists and project managers had worked solidly since New Year's Eve, fund managers checked the switch to the euro had not left them inadvertently holding more Portuguese shares than they wanted or fewer bonds, for example.

Several fund managers had finished this checking process by lunchtime yesterday. About 200 people were working at JP Morgan Investment Management, about a third of the total London-based workforce.

Pierre-Antoine Boulat, responsible for the conversion of the asset management division, was looking relaxed by early afternoon.

Lord Owen warned that "There have been so many 🖟 the countries signing up to a checks done already that 📆 single currency would effecthis really is just the final tively become a single state.

He said there were also one," he said. Brian Morris, senior fixed strong economic reasons

income fund manager, had arrived early yesterday to check his team's portfolios. Three minor errors had been found in the conversion of the company's bond holdings. One, a mis-typed code, could have happened on any day. "Frankly, it's been very unexciting," said Mr Morris. "Which is exactly

towards greater integration." Senior opposition Conserhow we wanted it!" The most obvious change vative politicians said the for many in looking at government was trying to thousands of positions in prejudice any referendum on shares and bonds across entering the single currency Europe was the proliferation noting that the Bank of England was already printof odd numbers.

The real test for fund They said the bank's printmanagers may still come, ing presses had produced Although almost all of euro notes in three denomi-

them had double checked their positions with custodians by yesterday, there is still scope for failure over the settlement of

Andrew Skirton, chief investment officer of Barclays Giobal Investors, **Europe's** index-tracking erendum would also be sup- ing on whether or not we manager, said: "We are confident but we don't know for sure. It's really the connections that are the issue and until they are put to the test we can't be sure. mer deputy prime minister. to be £300,000 - would be If there are any horror

Just routine, says Chase Manhattan UK urged to hold early operations and technology at whirred away, its actions response over a video link. By George Graham, Banking Editor Through a hail of three-let-Some issues took a little the Bournemouth site, mirrored by a back-up syster acronyms, the overall referendum Chase's largest operation tem housed on the other side longer to resolve. More than message came through: the Sibn went briefly astray task of converting bank outside the US. of Bournemouth. when the mark-to-market Every two hours from The "operations bridge". accounts and balances to the

In a basement conference

room on the edge of the English coastal town of Bournemouth, an Excel risk management systems spreadsheet scrolled steadily and redenominating thouon a large screen, marking sands of European governoff the 2,500 milestones in ment bonds held on behalf of the Chase Manhattan bank's asset managers and pension preparations for the start of funds by Chase's \$4,000bn trading this morning in the custody business was on

Around the table, some of the 1,800 staff working on dure we used for the mergthe euro conversion at the 38 ers [between Chemical Bank acre site housing Chase's and Manufacturers Hanover main European processing and then between Chase and operations checked off prog- Chemical in 1996] and it's ress in their divisions. Many wore the blue and white Emu polo shirts the bank kinds," said John Irvine, had printed for the occasion. head of international

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, the Japanese

co-operation of European

yen as one of three key

global currencies along with

In his New Year address,

France, Germany and Italy

to support the use of the yen

as an international currency

when he meets them during

throughout the world like

the dollar and the euro," he

Mr Obuchi's call to pro-

The documents shall be sent by air mail.

European tour

on Wednesday.

the dollar and the euro.

euro, adjusting trading and

"This is the same procethe same procedure we use for contingencies of other

Japanese PM in call to

Japanese government over

could have on the yen and

On the one hand, leading

Many LDP politicians

believe over-reliance on the

sible for the Asian currency

strength through its cur- like to see the dollar's influ- proposed paying for oil in

rency as well and ensure ence reduced by greater use yen rather than dollars, as is

"We have great expecta-

eral Democratic party (LDP)

national community.

mote the yen highlights izo Ohara, a member of an

growing concern within the LDP committee to promote

members of the ruling Lib- mined with the rise of a

the dominance of the US dol- behind," Mr Obuchi said,

US dollar was partly respon- calling for greater use of the

tions for the euro," and its Overseas Development

dominance, according to 1ch-yen rather than dollars.

boost profile of yen

prime minister, will seek the the impact the euro's launch

leaders in positioning the on Japan's role in the inter-

Mr Obuchi made clear he hope the euro can help miti-

would ask the leaders of gate the adverse effects of

"We must extend Japan's turmoil last year and would

that the ven is accepted of the euro and the yen.

Thursday night until Sunday, team leaders gathered in the conference room and by video link from Asia, London and the US for a regular update on progress. Problems, coded red, amber or from local hero Eddie Howe green, in descending order of seriousness, were raised, to alert other departments to any knock-on effects.

We don't want one thing hannening in derivatives in New York that someone in Hong Kong is not aware of,"

A Hitachi Skyline computer capable of processing

the yen and a leading

The launch of the euro

has, however, also triggered

concerns that the yen's sta-

tus could be further under-

strong European currency.

"We must make efforts so

that Japan is not left

referring to the launch of the

To that end, Mr Ohara is

yen in international transac-

tions. For example, he has

common practice, and has

suggested that Japanese

ability to reduce the dollar's Agency loans be repaid in Got it licked: France has printed its first sta

adviser to Mr Obuchi.

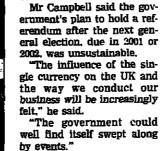
where staff handle cries for technological help, was

quiet. In fact, the loudest the football stadium beyond the treetons, where a goal put Bournemouth FC through to the fourth round of the FA Cup. Back in the Chase conference room. Anthony Davies. Emu project manager, queried a difficulty over interim

interest payments. "So that has gone from red to clear in "Well actually it was more

process, in which trading portfolios are revalued, skipped one trading book noise to be heard came from and mistakenly valued it at zero. Three of Chase's own bank accounts were not converted from ecus to euros on the first run through.

But Chase executives said this volume of problems could be dealt with by hand. "On an average working day we have 56 things going wrong around the world," said Richard Mangogna, chief information officer for half an hour?" he asked. the Chase group. "This is far less than we have to handle like half a minute," came the routinely."



The Liberal Democrats. who have 46 MPs, are the most pro-European party in the UK and are developing increasingly close links with

The party hopes to persuade Mr Blair he could win an early referendum on UK membership of the euro. with cross-party support. A "Yes" Cal n in a rer-

ported by a number of senior Conservatives, including Europe are printing the Kenneth Clarke, the former notes as a test as part of the chief finance minister, and general preparations. The Michael Heseltine, the for- cost of the operation - said

Meanwhile, former Labour recouped by sales to particistories we won't hear about foreign secretary David pating members. them for a few days."

NUCLEAR DISPUTE ENVIRONMENT AND ECONOMICS MINISTRIES AT LOGGERHEADS

Bonn split over fuel rod tax plan

TENDER NOTICE

CONTRACTS & TENDERS

The procuring entity - the Latvian state enterprise "Vides projekt" (I'ls str. 17, LV - 1050, Riga, Latvia) invites competitors to submit tenders on supply of hazardous waste (mainly pesticides) treatment and disposal facility (CPV reference number 90002490-2) in Latvia. One competitor may submit several variants as separate tenders.

Interested competitors may obtain further information and inspect the solicitation documents at the procuring entity's office (address above) from 09:30 to 13:00 hours, Monday through Friday. A complete set of solicitation documents in English or Latvian may be obtained by interested competitors on the submission of a written application to procuring entity and upon payment of a non-refundable fee of 500 USD to the bank account of the procuring entity Latvijas Unibanka, brarion Vecriga, Pils str. 23, LV - 1050, Riga, account Nr. 01648074124 (code 310101983).

Tenders shall be received not later than on 5 March 1998 at 12:00 hours East Europe time by the procuring entity (address above). Late tenders will be rejected. Each tender must be accompanied by a tender security of 30,000 USD. Tenders shall be submitted in English or

Tenders will be opened in the presence of competitor's representatives who chose to attend at 13:00 hours on 5 March 1999 in Ministry of Environmental Protection and Regional Development, address: Poldu str. 25, Riga, Latvia.

Tenders will be evaluated by price (40% of merit points) and other criteria.

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Verlagsgesell-schall inbH. Admiral-Rosendahl-Strasse ka. 0230 Nen Iseubrug ISSN
0174-7363. Responsible Editor: Richard
Lambert, clo The Financial Times Lumited,
Number One Southwark Bridge, London
SEI 9HL. FRANCE:

PRENCE:
Publishing Director: P. Maraviglia. 42 Rue
La Boetie. 75/08 PARIS. Telephone: (01)
5376 8/254. Fax (01) 5376 8/253. Printer:
S.A. Nord Ectair. 19/21 Rue de Caire.
F-99100 Roubaux Cedea. 1 Ednor: Richard
Lambert. 15/8N 1148-2753. Commission
Partiagr. No. 078/08/D.
Partiagr. No. 078/08/D.

SWEDEN: SWEDEN:
Responsible Publisher: Bradley P Johanon.
Telephore +46 S 791 2345. Printer AB
Kvillshihmisen Expresen. PO Box 6007.
5-550 (6. Toksopong.
L The Funancial Times Limited 1999.
Editor Richard Lambert. chr The Funancial
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Bridge, London SE1 9H1.

The proposals from Jürgen Trittin, environment minister, were rejected by the economics ministry, headed by Werner Müller, who advised Mr Schröder on energy policy prior to the September election. The ideas were "unhelpful" and "not up for discussion", the ministry said. The latest row followed angry exchanges shortly before Christmas between Mr Schröder and Mr Trittin

rods.

By Ralph Atkins in Bonn

chancellor, faces escalating

difficulties within his coali-

tion government after the

environment ministry con-

trolled by the Green party

vesterday backed controver-

sial plans to tax nuclear fuel

Gerhard Schröder, German atomic power safety commistin of "self-important posturing" and of calling into question a coalition agreement Germany's 19 nuclear power

> Disputes over nuclear domestic difficulties faced by Mr Schröder since his election which have also included protests from industry over the government's tax plans.

The chancellor. favours a drawn-out atomic shutdown to minimise compensation costs and job

after the environment minis- course for potentially dam- struck last September. ter sacked the country's aging confrontation with his Green party allies. Later this sioners without consulta- month, Mr Schröder is tion. The Social Democrat expected to take a lead role chancellor accused Mr Trit- on talks between government and industry on atomic

However, the environment on the eventual shutdown of ministry last night argued that its proposals for taxing atomic fuel rods should not be seen as part of the dispower have exacerbated the pute over exiting from nuclear power. Instead, they should form part of separate government plans for higher "ecological taxes" to fund cuts in state social security contributions paid by employers and employees.

economics ministry said the proposals violated the principles of a coalition losses, now appears on deal on ecological taxes

Spiegel magazine, Mr Schröder warned his European Union partners that failure to reform EU finances during Bonn's six-month presidency of the bloc would force a delay in its enlargement. Reuters reports in

Bonn. "If we fail to re-order financial relations during the German presidency...then enlargement will be delayed," he said in an interview to be published on Monday. Mr Schröder has adopted a hard line on cutting Germany's DM22bn (€11.3bn, \$13bn) EU budget what he has called his predecessor Helmut Kohl's "che-





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President Bill Clinton has proposed to reverse almost a decade of falling US spending on defence, pushing for a \$12bn increase in the military budget next year.

US MILITARY SPENDING

for defence

budget rise

US military spending has been in continuous decline after adjustments for inflation since the mid-1980s, with the exception of the Gulf war year of 1991. The increase is part of an

administration proposal to boost expenditure on the armed forces by about \$100bn over the next six years. It comes in response to growing concern in the military and among some Republican legislators that US military capabilities have been threatened by past

There have also been complaints that the armed forces have been stretched by new longstanding commitments abroad, including in Iraq and in the Balkans.

Mr Clinton announced his intentions in his weekly radio address on Saturday.
"We want our forces to remain the best equipped in the world into the next century and that is what this effort will ensure," he said.

vide for upgrading military equipment, more spare parts as well because we have the and better military pay and

2000 fiscal year - would allow increases in military pay, and go some way towards addressing Pentagon concerns that the milltary is losing personnel to the private sector. "It will help us to do right by our troops by upgrading and barracks and family housing." Mr Clinton said. The

a combination of new spending and budgetary savings.
The \$12bn proposal is only the first step in the lengthy budget process between the administration and Congress. The Pentagon has also requested a higher increase of close to \$150bn over the next six years. However, the sum being proposed by the administration would be sufficient to provide much of the equipment that defence chiefs have argued are priorities, including new F-22 fighters, attack helicopters,

system Administration officials have said the US must also be ready to defend against new threats such as terrorism and weapons of mass destruction.

ships and new defence

"We must undertake this effort today so that our nation will remain strong and secure tomorrow," Mr Clinton said. "We must do it most sacred obligation to those who accept dangers The \$12bn increase – equal and hardships on our

Microsoft faces challenge over Windows access

US antitrust trial to resume with call from software industry executive for court regulation of dominant operating system

The Microsoft antitrust trial tunity to present its witis set to resume today with a nesses or argue its defence. battle over testimony from the US government's lat witness - a software industry executive who plans to call for court regulation of mony was "rife with rank Microsoft's Windows operat- speculations. . . and ing system business.
Although the Washington-

based court recessed just yets by a witness who is neibefore Christmas, legal manoeuvres continued over the holiday season.

In written testimony subweek, William Harris, presi-Intuit, a California software company best known for its Quicken personal finance management software, proposed that the courts ensure operating system neutrality". By this he meant mechanisms to ensure equal access to the dominant Microsoft Windows operating system for all developers of personal computer software as well as internet pub-

lishers and services.

Whether or not Microsoft cooked up on his own".
has coerced its rivals Microsoft has also filed a through its alleged monopoly power lies at the heart of the case brought by the Justice Department and 20 individual states.

"Since the operating system is essential for comput-ing. and since the Windows erating system is domitial for all users - both consumers and companies - to have equal access," Mr Har-

ris said. ity would avoid exclusionary and discriminatory behaviour by Microsoft, he claimed. Computing had ten submission was become as essential as elec- prompted by the unusual tricity and telephone services and should be regulated much like these public utilities, he proposed.

Mr Harris' testimony comes as observers of the missions, rather than testify landmark antitrust trial are beginning to debate what "remedy" the US government should seek if it wins its case against Microsoft to address issues well that finding an effective way ically be heard in the court-Curtail Microsoft's alleged room. Lillying tactics without For Microsoft, the testihas become an icon of US represents a strange turn of high technology success events. In 1994, Intuit agreed could be an even bigger chalto be acquired by Microsoft lenge than winning the hard- in a move that both compafought case. This makes Mr nies endorsed publicly. The

since it comes before the company has had an oppor-In a stinging rebuttal, also tust before the No Year holiday, Microsoft claimed that Mr Harris' testi-

testimony is out of order,

attempts at complex legal, technical and economic analther an attorney, a software developer, nor an econo-

Most of Mr Harris' testinitted to the court last mony was based on "half-baked analyses." dent and chief executive of Microsoft claimed. The idea of operating system neutrality was "an entirely new and irrelevant concept Mr Harris

> **'Computing** service should be regulated in same way as utilities'

legal motion seeking to exclude several portions of Mr Harris' written testimony, claiming that the document "reads more like a position paper written by a lawyer representing one of Microsoft's competitors than the direct testimony of a

. . . witness". Judge Thomas Penfield Jackson may rule today on Microsoft's motion exclude portions of Mr Har-Operating system neutral- ris' written testimony before Microsoft's lawyers begin their cross-examination

Ironically, Mr Harris' writprocedures laid down by Judge Jackson in his efforts to avoid lengthy courtroom testimony. He has asked witnesses to make written subing in court. Yet as Mr Harris has demonstrated, this procedure provides opportunities for witnesses Many legal experts believe beyond those that might typ-

For Microsoft, the testi-Harris' proposal critical to merger was abandoned only the government's case, when the Justice Depart-Microsoft has said that his ment raised objections.

Storm Clinton plan wreaks havoc

A ferocious winter storm paralysed much of the US this weekend. A foot-and-ahalf of snow blanketed the city of Chicago in the worst blizzard it has seen since 1978 and winds gusting up to 55 miles per hour created 8ft snow drifts. The weather wreaked

havoc with US air flights on one of the busiest travel days of the year. Chicago's O'Hare International - one money would come through of the largest air hubs in the country - shut down on Saturday, as did airports in Indianapolis, Milwaukee and South Rend

In a domino effect, cancel-

lations and flight delays spread across the country. TWA cancelled nearly 400 flights out of its St Louis headquarters. Northwest Airlines dropped 150 flights The Greyhound bus company cancelled all travel in Indiana. Fifty cities in Indi-

ana declared snow emergen-

cies, banning all unneces-

sary travel. Airlines said

schedule until today or even The storm spread to the east coast on Saturday night. Ice forced Newark International Airport to close for a

short time. Freezing rain the south. Slicks on roads So many people got the mes-triggered an accident involv- sage, in fact, that Midwest ing 50 cars in New Jersey, and drove a bus headed for an Atlantic City casino off the road. Flooding caused a number of communities in Florida to abandon their homes. At least a dozen deaths nationwide were blamed on the weather. Chicago has not seen such pered by gusting winds.

tomorrow.

they might not get their bad weather since the blizflights completely back on zard of 1978, when 2ft of snow covered the city and left it paralysed for days. "Communication was better this time, though," said Gilbert Washington, a South Bend hospital chaplain. "We knew about it well ahead of time, so we could stock up." shoppers spent Friday fight-

> said his wife managed to grab the last loaf of bread from the shelf at their local in the Midwest were ham-

While most highways were open yesterday in Indiana, nearly all sideroads remained impassable. The US Postal Service cancelled mail delivery on Saturday throughout much of the state. Even the Swiss Valley ski resort in Michigan shut stranded and lifts become inoperable.

Not everyone was upset by ing over food at local super-markets. Mr Washington the weather. Children in many Midwest communities were looking forward to an extra holiday, as many schools cancelled classes today. "We're planning to take the kids sledding," said Natasha Jones, an Indianapolis resident.

Mexico faces price rise as subsidy goes

Under severe budgetary food prices - a nationwide was estimated to cost \$1hn a

The decision to and the subsidy effectively pushed up tortilla prices from 3 pesos to 4 pesos (40 cents) per kilogramme, fanning inflationary pressures in Mexico already kindled by higher petrol and diesel

But the trade ministry, which abolished the price support on January 1, said it rould redirect the subsidy to increase the amount of free tortillas distributed to the very poor.

Some 3.5m Mexican fami-lies whose collective income is no more than 68 pesos (\$6.90) a day receive tortilla handouts. Many more poor Mexicans who earn only slightly more will be hit by the latest price increase. But it will enable the govern-

ment to stop providing subsi-

The trade ministry said pressure, the Mexican gov- the elimination of the subernment has scrapped its sidy would help preserve last remaining control on 40,000 tortilla-producing establishments, which have subsidy on tortillas, the protested they were on the country's corn staple, which brink of bankruptcy because of price controls.

But it will also stoke inflation. According to a recent central bank survey of 36 private sector economists, the consumer price index this year is expected to rise 16.22 per cent, well above the government's 18 per cent target, although below last year's expected increase of 18.8 per cent.

The upward trend has increased pressure on Guillermo Ortiz, the central bank chief, to prove his inflation-fighting mettle after a chequered first year in office.

"The important thing is to regain your credibility and to do that you need to get central bank official acknowledged recently. Mr bank needs to deliver in

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AIR PATROLS IRAQ VOWS RESISTANCE

No-fly zones illegal, says Saddam

By Rouia Khalat in Baghdad

Iraqi President Saddam Hussein yesterday attacked the northern and southern no-fly zones as "illegal" and said his people would resist

Mr Saddam's first comments on the no-fly zones above Iraq patrolled by US and British warplanes came as diplomats in Baghdad confirmed that fraq wanted the United Nations humanitarian mission in the country to stop employing US and British citizens.

Irao has informed the UN that it will not renew visas for US and British workers on the oil-for-food deal in Iraq and will not issue new entry permits for employees coming back from holiday.

According to diplomats in Raghdad, frag said the move was prompted by concern over the workers' safety, following last month's US and British raids on the country. But it will be interpreted as retaliation against the USled military strikes and as another way for Baghdad to defy Washington and Lon-

Last week, Iraq said it would not recognise the northern and southern no-fly zones and fired at US and British warplanes patrolling the regions. Mr Saddam said yesterday the exclusion zones were "flagrant and clear-cut violations of international laws, accords and norms, particularly the UN charter"

Al Thawra, the ruling Ba'ath party's newspaper, predicted yesterday that after a pause for the New Year, the US-Iraqi confrontation could escalate.

Speaking at a cabinet meeting, Mr Saddam accused Arab leaders who sought a postponement of an Arab League foreign ministerial

design of Iraq's aggressors. The meeting on Iraq, called by Yemen, was originally scheduled for last week, but has been moved to January 24. Mr Saddam said the postponement was designed to

meeting's agenda. Iraqi officials yesterday refused to comment on the granting of visas of UN humanitarian workers. George Somerwill, spokes-man for the UN humanitarian office in Baghdad, would only say that his office had received nothing in writing.

drown out the Iraqi question

and add other issues to the

But diplomats said UN officials were holding talks with the Iragis in an attempt to convince them to reverse their decision. The Iraqi move, said diplomats, would set a dangerous precedent for the Iraqi mission as well as for other UN missions. The UN may also become concerned about the safety of employees of other nation-

It is believed that the Iraqi decision will affect no more than 20 employees - most of them British - out of more than 500 UN workers involved in the oil-for-food programme, which allows Iraq to sell limited quantities of oil to buy humanitarian goods. UN observers ensure that food is distributed equally to the Iraqi popula-

During the raids the UN withdrew most staff from Baghdad but left those in the north. The staff returned three days later.

Mr Somerwill said another 19 staff were returning to Baghdad yesterday from holiday. He declined to say whether they included Americans or Britons.

ing from their leave," he

problem with their return." I coped better with the tur-

Yemen admits to shortcomings over warnings to embassies

The government was aware of increased terrorist activity several days before tourist kidnappings, writes Robin Allen

top Yemeni government official has conceded Hthat the country failed to warn foreign embassies that terrorist activity was being stepped up in the south of the country - even though it was aware of such activity several days before the kidnapping of western tourists in which four subsequently died.

The Aden-Abyan Islamic Army claimed responsibility for the kidnappings which took place last week and were ended by a fatal shoot-out with security

Although the government ays it arrested terrorists in Aden the previous week and kept the Islamic extremists' training camps in the Mudiyah area of the southern Abyan province under "surveillance", the official, speaking on condition of anonymity, acknowledged the government did nothing to warn western embassies to increase security or tour operators to stay away from hazardous areas.

As the kidnapping survivors flew out, teams from the FBI and Britain's special branch flew in to seek co-operation from the government in pursuing their own investigations.

Within 24 hours the FBI, said it had evidence the extremists were trained in camps run by Saudi-born chants. Their motives vary

Osama bin Laden. But senior from personal commitment Yemeni officials say the realto the Moslem activists; ity behind the terrorists' training camps and financing is much more complex. According to the senior

Abdul-Karim Al-Irvani, Yemen's prime minister, the Islamic Army, now numbering several hundred, originated along with many other groups in southern Yemen some 15 years ago.

Police security was dropped just before attack on tourists

The groups emerged partly in response to the persecu-tion of Islamic traditionalists by successive Soviet-backed Marxist governments. Many went on to fight the former Soviet Union in Afghanistan.

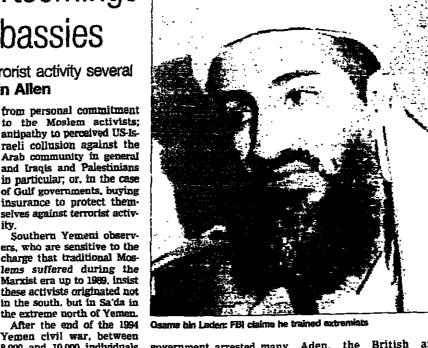
The various groups, known by the generic name of Islamic Jihad and active in other countries, were financed, and continue to be sponsored, by Saudi and Gulf Arab governments, either directly or through "charitable" organisations set up or indirectly sponsored by senior members of Gulf ruling families and mer-

antipathy to perceived US-Israeli collusion against the Arab community in general and Iraqis and Palestinians official who is close to in particular, or, in the case of Gulf governments, buying insurance to protect themselves against terrorist activ-Southern Yemeni observers, who are sensitive to the charge that traditional Mos-

> in the south, but in Sa'da in the extreme north of Yemer After the end of the 1994 Yemen civil war, between 8.000 and 10.000 individuals of Islamic Jihad, including the future Islamic Army, installed themselves in two areas with president Ali Abdullah Saleh's blessing around lbb in northern Yemen, and Mudiyah in

> Abyan province. The Islamic Army and affiliated groups first used violence against defeated southerners. But the government only started to take action after pressure from the US to deport extremists. This became particularly pronounced after the start of ongoing talks for the US Navy to lease facilities at a renovated Aden port.

In retaliation, the Islamic Army started attacking gov- French passport. According ernment installations. The to independent observers in



government arrested many

individuals, including Mohammad Haider Al Atwi, whose release was demanded by Abu Al-Hassan, the ler of last week's group of kidnappers. But the government still allowed the Islamic Army its training camp at Mudiyah.

Ten days ago, according to General Mohammed Turik. head of security for Aden. seven terrorists were arrested in Aden with explosives and plans to blow up the church at Tawahi, a hotel and the British consulate. Those detained were three Yemenis, three British nationals of Pakistani origin and one Algerian holding a

the British and Aden, French passports forged.

The authorities did not inform any western embassy. According to Western diplomats the authorities were so unconcerned that police security for the tour group was dropped last Tuesday, just before the attack at Mudiyah.

The government only reacted when Abyan security forces received word from Abu Al-Hassan that the tourists had been abducted and that one would be shot every two hours unless the Islamic Army prisoners were released by 1pm. With no time left, the security forces immediately attacked.

Bin Laden in shift on embassy bombings

Osama bin Laden, the exiled Saudi billionaire, appears to admit in a Time magazine interview that he instigated the terrorist bombing of two US embassies in Africa, AP reports from New York

The interview seems to be the closest that Mr bin Laden has come to admitting a role in the attacks. He has previously denied any role. Time said the interview was conducted on December 22 at Mr bin Laden's secret encampment in Afghanistan. He was specifically asked if he was responsible for the embassy attacks, and he couched his response in religious references - as he did with most questions.

"If the instigation for Jihad [holy war] against the and

Americans . . . is considered a crime, then let history be a witness that I am a criminal." Mr bin Laden said, "Our job is to institute, and by the grace of God, we did that, and certain people responded to this instiga-

However, in a Newsweek interview conducted the same day. Mr bin Laden said he had no connection to the embassy bombings in Kenya and Tanzania that killed 224 people, including 12 Americans on August 7 last year, "I did not order them but was very glad for what happened to the Americans there," Newsweek quoted him as saying.

could become world 'lender of last resort

Bigger central bank moil than those with smaller released in WashIngton in and at the way in which a future as countries drew lesreserves, more transparent financial systems and an enhanced role for the International Monetary Fund are possible responses to last year's financial crises, a senior IMF official said vesterday, Reuters reports from

Washington. "These people are return-Stanley Fischer, IMF first said. deputy managing director, said countries with large reserves had, by and large,

ones, and this was likely to prompt countries to rethink their reserve policy. But efforts by emerging

market economies to create current account surpluses to build up reserves could have a deflationary impact on the world economy, he

The text of his remarks, prepared for delivery at the American Economic Association in New York, was

and contagion will always be with us, we can surely do better in reducing the frequency and intensity of emerging market financial crises, and the extent of contagion, than we have in

The IMF admits it was caught by surprise at the speed with which national financial problems spread,

the last five years," he

advance. "While volatility crisis which started 18 months ago in Thailand became a plague infecting almost all the developing

> Economic output is slowing around the world, although the IMF's last World Economic Outlook. released last month, still sees world growth of 2.2 per cent this year.

pegged exchange rates in the

sons from problems in Asia. "The virulence of the recent crisis is likely to shift the balance towards the choice of more flexible

exchange rate systems. including crawling pegs with wide bands." he said. The IMF could build on its

latest experiences to become an international lender of last resort - like a national Mr Fischer expected fewer central bank which can pro-

problems and can provide collateral. "I would arme that the International Mone tary Fund, although it is not an international central bank, has undertaken certain important lender of last resort functions in the current system - and that role can be made more effective in a reformed international financial system," he said.

vide unlimited funds to a Soros' personal view, Page 18

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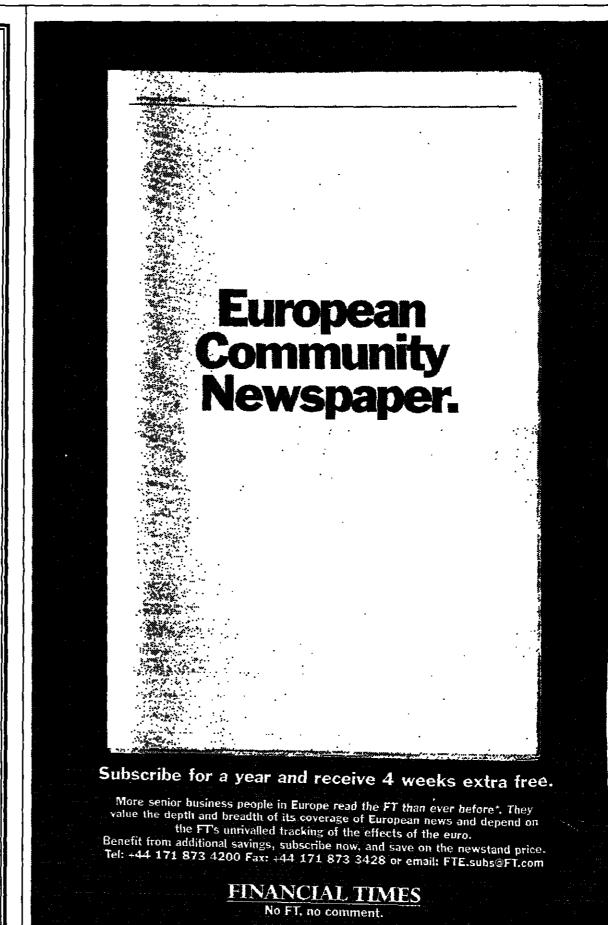
- \$930 million initial public offering of equity by the State Treasury, including the listing of TPSA Global Depositary Receipts on the London Stock Exchange, Schroders, global coordinator and bookrunner
- \$250 million loan syndication Citibank and Dresdner Bank Luxembourg, lead arrangers
- \$1 billion bond issue JP Morgan & Co., Salomon Smith Barney, joint lead managers

Hunton & Williams provided legal advice to TPSA on these transactions.

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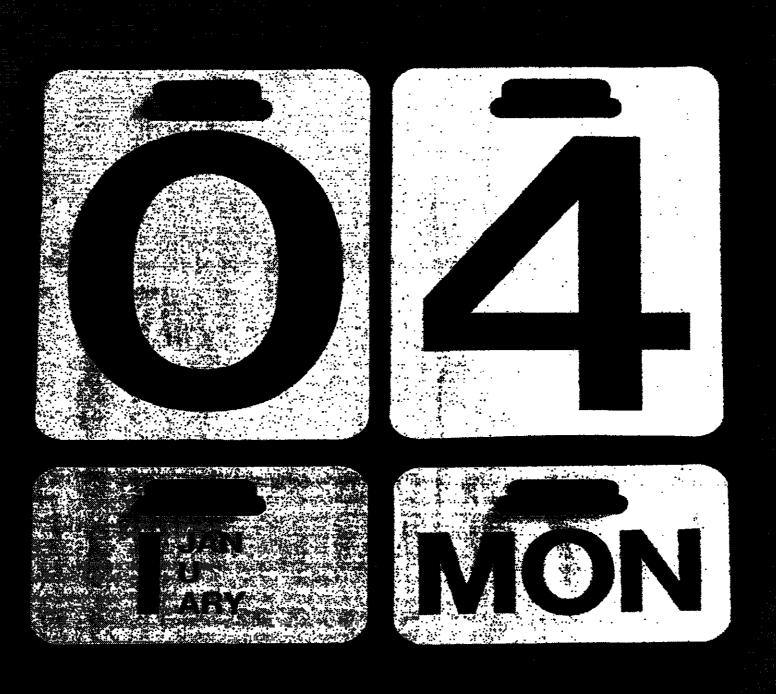
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P.J. Kalff, Chairman of the Managing Board



FINANCIAL TIMES MONDAY JANUARY

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INTERNATIONAL FOOTBALL FINALS

Call for soccer world cup to be held every 2 years

Sepp Blatter, president of the International Association Football Federation (Fifa), yesterday called for the World Cup finals to be played every two years.

Mr Blatter wants to improve the status of international football by holding the finals in each even-numbered year and has put his idea to the Fifa executive committee, which is studying it. "I am demanding a clear statement. Do we want national teams or do we only want club football?" he said. "The existing four-yearly tournament is out-of-date. It dates from the 1930s, when teams chugged

from one continent to another on ships." Mr Blatter's plan would see qualification for the finals take place in odd-numbered years when national teams

would take part in continental tournaments. The existing system of qualification for the world finals. where teams play international matches in groups over the bourse of the years leading up to the actual tournament. * would be dropped.

Mr Blatter, who was elected Fifa president last June, said his proposals were a reaction to media tycoons across Europe, including Italy's Silvio Berlusconi, who are pressing for a European super league of top clubs. He said he was atraid that if the league went ahead, clubs would be unwilling to release their international stars. A competition every two years would give national teams the "status they deserve". PA

MARION BARRY BOWS OUT

New mayor for Washington

Washington D.C. has sworn in a new mayor, ending two decades of controversial politics under the leadership of Marion Barry, who earned worldwide headlines when he was caught smoking crack cocaine.

On his first day on the job as Mr Barry's successor. Anthony Williams, a self-described "bean counter" with a sence and for bow ties, called for an efficient, innovative povernment with a "real sense of community" in the US

Mr Barry earned an earthy reputation during his mayoraity. A 1960s civil rights activist, masterful politician and self-admitted "night owl", he was caught smoking crack cocaine in a 1990 FBI sting operation. After serving six . months in prison, Mr Barry returned to politics by being elected to the city council. He then won a fourth four-year term as mayor in 1994.

But with the city mired in debt, services almost non-existent and crime rampant, Congress in 1995 created an oversight board and eventually stripped Mr Barry of all but ceremonial duties. Mr Williams, whom Mr Barry had appointed as the city's independent chief financial officer, trounced a field of veteran local politicians in last November's election. Mr Barry had decided not to seek a fifth term as mayor. Reuters. Washington

INDONESIAN UNREST

Protesters clash with police

At least six people were reported killed in Indonesia's scen province yesterday when security forces clashed with demonstrators who set fire to government buildings,

Aceh's police chief, Colonel Juhamus Wiradanata, said security forces fired warning shots to disperse the crowds. He could not confirm a report from a human rights activist who said six bodies were found at the scene of the vio-

On Saturday evening, some 800 people rioted in Indonesia's second city, Suraybaya, torching a police station and shops after a man died in police custody. The man had been accused of breaking into shops. Police denied he had been tortured and said he died of his injuries.

CYPRUS GOVERNMENT

Socialists leave coalition

The socialist junior partners in Cyprus' governing coalition have pulled out of the administration because of the cancellation of plans to deploy Russian anti-aircraft missiles

the divided island.

The vast majority clearly support the withdrawal from the government and so our departure should be considered a fact," sald Vassos Lyssarides, socialist leader. speaking after a meeting of his Edek party. The move does not endanger the present administration, which is based on a presidential system, but does mean a cabinet

Glafkof Clerides, president of Cyprus, last Tuesday agreed not to deploy the S-300 missiles on Cyprus and instead negotiate to place them on the Greek island of Crete. The move followed intense international pressure to defuse a potentially explosive dispute with Turkey over the

BASQUE POLITICS

Nationalists boycott ceremony

A boycott by radical Basque nationalists of the weekend inauguration of the Basque government's new chief minister has underlined the complexity of the Spanish region's fledgling peace process following a ceasefire declared in September by the outlawed separatist organisation Eta. Juan José Ibarretxe, a member of the mainstream Basque Nationalist party (PNV), was elected last week with

C nandate to negotiate a peace agreement among Basque Basque Citizens, a political coalition backed by Eta. But EH boycotted the ceremony, saying that the event reflected partition of the Basque country they are trying to create and that Mr Ibarrebte was not the chief minister of all Basques. Radical nationalists seek a greater Basque nation, which incorporates the adjoining province of Navarre and ethnic Basque areas across the border in south-west France. Tom Burns, Madrid

CAMBODIAN GUERRILLAS

Khmer Rouge leaders still free

Two top Khmer Rouge leaders headed back yesterday to an area run by former guerrillas as the Cambodian government denied it was allowing those blamed for genocide to

Khieu Samphan and Nuon Chea left the north-west town of Battambang by military helicopter for Pallin, according to police. This followed six days of VIP treatment from the government that angered human rights groups and many nbodians. Government spokesman Khieu Kanharith and the two were free to go because no warrant existed tor their arrest. Their defection was announced on December 26 and followed widespread calls for them to face an

International tribunal. The prime minister, Hun Sen, who draw fire last week for questioning whether trying the two would be in Cambodia's interest, said on Friday he backed a trial but it was up to the courts to decide when and how to bring a case. Reuters, Phnom Penh

UN 'must continue efforts in Angola'

The United Nations must not pull out of Angola despite the recent increase in hostilities and the shooting down of two UN-chartered aircraft, issa Diallo, the UN's special representative to the country, said yesterday.

"We cannot afford that." Mr Diallo told the Financial Times. "The population of we will be judged by his-

Drawing a parallel with been tryin events in Rwanda in 1994, he to safety.

community had an obligabetween the country's government and Unita rebels.

His comments came the day after a second UN cargo aircraft in just over a week came down near the embattled central highlands town Angola does not deserve it: of Huambo, with eight people on board. The South African-owned C-130 had been trying to move UN staff

general, expressed "outrage" tion to provide humanitarian at the event, and has reiterassistance to ordinary Ango- ated calls for an "immediate lans, and said it should con- ceasefire" to allow a search tinue to push for dialogue and rescue operation, and for personnel in Huambo to be relocated away from the

fighting. The fate of the 14 passengers on the C-130 cargo aircraft which crashed on wreckage was located last week. The Angolan military has accused Unita of holding them hostage but Unita

denies any knowledge of their whereabouts. The Angolan government

said on Friday it would cooperate with UN efforts to search for possible survivors but the territory around the crash is believed to be in rebel hands. Unita says it has received no formal

request for help December 26 remains staff, and the apparent unclear, even though the breakdown of the 1994 Lusaka peace protocol since full-scale fighting began in early December, have added to doubts about the presence ingly difficult for the L'N to rent mandate.

of international observers in fulfil its mandate - to over-

Mr Diallo, nonetheless, is adamant that the UN has a continuing role to play, and that peace remains feasible. "Despite recent events, the Lusaka protocol is a good compromise." he said, has enough strength to rein-"Today we have a constitution that allows a The growing risk to UN multi-party system, a government of national

> army. Acknowledging that conditions were making it increas-

> unity, and an integrated

see the implementation of the peace accord - Mr Diallo said that the international community had the strength to enforce compliance if it wished.

"The United Nations still force sanctions, to request a ceasefire," he said. The UN Security Council has asked Mr Annan to make recommendations on the future role of UN peace monitors in Angola by January 15, for a mid-term review of its cur-

Sierra Leone peace hopes prove premature

By William Walls in Lanns

When troops from the west African intervention force Sierra Leone capital, last March overthrowing the milelected government, hopes continent's nastlest wars was coming to an end.

In the past two weeks that

again brought the war to the their cause - had gained outskirts of the crowded cap-control of half the impoveroutskirts of the crowded cap-

The intervention force stormed into Freetown, the failed to hold its ground while rebels captured their itary junta and restoring the at the town of Makeni and went on to attack towns and villages around Freetown. The 'evacuation over

Christmas of foreign nationals added to the panic, as did optimism has proved hope- a statement by a United lessly premature. Rebels of Nations envoy that the reb-the Revolutionary United els - who have attacked and Front and soldiers loyal to mutilated civilians and territhe ousted junta have once fied them into supporting selves the only native fight-

ished country.

In the past week, Nigeria, which dominates the intervention force, has poured in troops, according to spokesmen and officers, who said they aimed to bring the total force up to around 20,000. That would make Nigeria's

own commitment around a quarter of its army. Traditional hunting militias have fought alongside the intervention force, proving them-

ers consistently loyal to fighting coincides with a over there are definitely President Ahmed Tejan Kabbah's government.

Since the arrival of Nigerian troop reinforcements, the momentum appears to have swimg back in the intervention force's favour, with several rebel attacks repelled with plans afoot for an offensive to retake Makeni. The long term ability of the intervention force to bring a military solution to Sierra Leone's eight-year civil war. however, looks decidedly

shaky.

deepening economic crisis in Nigeria with the 1999 budget forecasting a 34 per cent drop in revenues due to the collapsed price of oil, the country's principal source of

foreign exchange earnings. A senior Sterra Leone official acknowledged concern that it will be harder for an elected civilian government - due to replace Nigeria's military leadership by May this year - to justify the cost in spending and

going to be more questions. he said. He argued that this enticing formula for the surrender of rebels all the

Sierra Leone complain that western support promised for the demobilisation of soldiers and rebels and the reformation of a national army has been weefully madequate. They also claim fighters from neighbouring Liberia are swelling rebel

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BANQUE NATIONALE DE PARIS



Bomb sparks fears for Sharif's safety | Start of Dhaka

outside Lahore yesterday triggered fresh concern over the security of Nawaz Sharif, his way to the farm yesterthe Pakistani prime minis-

The blast blew up a bridge near Raiwind, a suburb of Lahore, shortly before Mr Sharif was due to drive over it. The explosion killed three men walking along the road and a police inspector who security arrangements ahead

widely known as Mr Sharif's terrorism and this incident former provincial governor weekend retreat. Officials said that Mr Sharif was due determination to fight tigators alleged that the susto drive over the bridge on against this menace."

described the blast as an "act of terrorism". an implicit reference to an assassination attempt. "Obviously it was target-

ing the person of the prime

has further strengthened our of Sindh. Government inves-

Some officials blamed activists belonging to Kara-No one claimed responsi- chi's Mohajir Qaumi Movebility. Police officials ment (MQM). However, analysts said it was too early to hold any particular group or government officials say individual responsible.

Mr. Sharif's ruling Pakis- headed by Altaf Hussain tan Moslem League (PML) broke ranks with the MQM trained its activists in the minister." said Mushahid in the southern province of use of firearms and explo-Hussain, the government Sindh in October, after run-sives in an effort to combat sified criticism from his information minister. "The ning a coalition government paramilitary and police opponents.

Mr Sharif's family owns a government has taken strin-for 20 months. The break troops used in Karachi, the farm in Raiwind, which is gent measures to root out came after the killing of a provincial capital.

were MQM activists. The MQM has denied its involvement in terrorism. including the killing that caused the break. However. that the MQM, which is chief of his own choice in an who is exiled in London, has

pects subsequently arrested

Yesterday's blast comes as Mr Sharif faces an uphill task in restoring political

stability in the country, despite the PML's large majority in parliament. During his two-year rule, Mr Sharif has appointed a president, a supreme court chief justice and a military

However, the concentra-



Yet public expenditure on

education as a percentage of

gross national product is

declining. In 1991-92, India

spent just 1.8 per cent of

GNP on elementary educa-

tion, a figure which dropped

to 1.5 per cent in 1995-96. The

report blames the neglect

partly on the attitudes of

middle and upper class

Indians in positions of influ-

ence, many of whom are

unconvinced of the rele-

vance of educating impover-

By David Chazan in Dhaka

Court hearings began yesterday in Dhaka, the Bangladeshi capital, in a much delayed trial of 34 prominent financiers and businessmen charged with insider trading and manipulating the stock market.

Hundreds of thousands of small investors lost their savings in a \$100m share scam in 1996. The resulting market crash became known as the "slaughter of the done." innocents".

Small investors were attracted by a meteoric rise in share prices, which quadrupled in a few months. The regulatory authorities said a small group of well connected individuals and companies had driven the market artificially high. When they sold many of their holdings, share prices collapsed. The central bank estimated the losses to the

market at more than \$100m. Among the defendants are the current and former chairmen of the Dhaka stock exchange, and the deputy chairman of Beximco, one of Bangladesh's largest indus-

trial groups.

Charges were first brought in 1997 but those accused

share scam trial After the lower court. The government then took the case to the high court, which upheld the charges and ruled that the trial should proceed.

facts of mi

"It's important for this case to cume to court because the 1996 share scam has left deep scars in the market." Said M.A. Said. head of the Securities and Exchange Commission,
"Public confidence cannot be restored unless justice is

Analysts said the stock market in Bangladesh has yet to recover from the plunge in 1996. Share prices are still low and few members of the public have since invested in the stock market.

The authorities have begun to reform Bangladesh's two stock exchanges, in Dhaka and Chittagong, in the past two years. Computerised trading has been introduced, undermining the illicit street trading in stocks, which once flourished in the street outside

the Dhaka stock exchange. Many Bangladeshis bad expressed doubts that those responsible for undermining the stock market would ever face trial because of their

Quality of Indian village schools criticised

A new study of Indian states with high illiteracy rates lages in the large north found that most impover- Indian states of Ribar Raiaished villagers want their sthan, Madhya Pradesh and children to be educated but Uttar Pradesh. It paints a are deeply discouraged by dismal picture of a rural eduthe poor quality of their cation system characterised local government schools, by governmental anathy. which lack the necessary teachers or educational materials for meaningful

Basic Education was pub- ing kit and 41 per cent had survey was carried out.

lished by Oxford University any maps or charts to deco-Press and was based on a rate the walls. Twenty-five ers did little other than let. Only 29 per cent of the survey of school facilities in 188 randomly selected vildemoralised teachers and dilapidated infrastructure.

Of the schools visited, only 23 per cent had a library, 33 teachers had just a single per cent had a useable teach-instructor present when the

per cent of classrooms lacked even a blackboard. In schools with teaching aids, the materials were often locked in cupboards since teachers fear being blamed for loss or damage

Twelve per cent of schools had a single teacher to handle children of every age, while 21 per cent of schools that officially had several

assign written exercises. The report also found that if every child between the ages of six and 10 regularly attended school, the average pupil/teacher ratio would 68.

Physical infrastructure surveyed, 60 per cent leaked severely, which forced classes to stop for weeks at a children to drink or wash, years in China and over nine

villages surveyed had an upper primary school, for ages six to eight. High costs also prevent school enrolment. Although

government schools do not charge tuition fees, parents was also poor. Of the schools are expected to buy uniforms, textbooks and other supplies, which can cost up to \$7.50 per year per child.

time during the rainy sea-son. Fifty-nine per cent had no running water supply for school, compared with five

China sees sunny growth rate but darker shadows

While state investment has helped to buoy the economy, business conditions are difficult, says James Harding in Shanghai

ingly voluble grumbling ers, pulled out of China after in recent months among judging that in the near foreign investors and traders future the market would not operating in China, the sustain a profitable venture. country is a difficult place in

which to do business. Yet China reported what is likely to be the fastest ecoyear. The State Statistical Bureau (SSB) reported last government promised to than a decade. achieve but a remarkably

bours sunk in recession. ong...but the quality of growth remains poor," says is not satisfactory in China Dong Tao, economist at Credit Suisse First Boston in Hong Kong, to explain what he calls "the mystery of pretty good macro figures and pretty unimpressive

micro figures" In fact, the component statistics that Beijing released alongside the headline figures illustrate the imbalances developing as China grows - and the prospects for the economy, as well as

business, in 1999. The growth rate has been buoyed up by government spending on infrastructure. As the economy lost momen tum in the first half of the year, the Beijing authorities turned to what analysts are calling a policy of "Keynes-ianism with Chinese characteristics". They sanctioned a government spending pro-gramme, allocating money to construct roads, railways. power lines and telecommu-

nications networks. The growth in state investment rose from 10.3 per cent year-on-year for the first quarter of 1998 to 28.2 per cent for the third quarter and was expected to be about 24 per cent in the last three months of last year.

the SSB said. Authorities say it was this splurge in state investment that reinvigorated the economy in the second half of last year. But senior members of the government have also acknowledged that China's growth figures have "padded" by local officials anxious to advance

Many independent economists believe that the headline growth rate in 1998 was several percentage points lower than the 7.8 per cent reported. This, of course, has important implications for foreign companies operating

In recent months, foreign operators in the financial services sector, such as Jardine Fleming and ING Barings, have been cutting back foreign staff to reduce costs. and large multinationals, such as Motorola, have continued to replace expatriate executives with local manag-

scaled back their operations or, as in the case of Marks priority for 1999.

o judge from the increas- and Spencer, the UK retail-

Even for the foreign investors entrenched in China for the long term, it has proven harder to make a return on nomic growth in Asia last investments as industrial overcapacity and depressed consumer demand have week that gross domestic driven down prices. The product grew 7.8 per cent in retail price index was down 1998. That was just below 2.6 per cent in 1998, the first the 8 per cent growth the full year of deflation in more

Ernst Behrens, president robust performance in com- of Siemens in China, echoed parlson with Asian neigh- a common sentiment of industrial manufacturers in "The growth number was the country in a recent interhe said.

Dong Tao says the government in China" and sugges national economic growth and strained business conditions "may even widen next

Initial trade figures sug

Some companies have scaled back operations or pulled out of the country

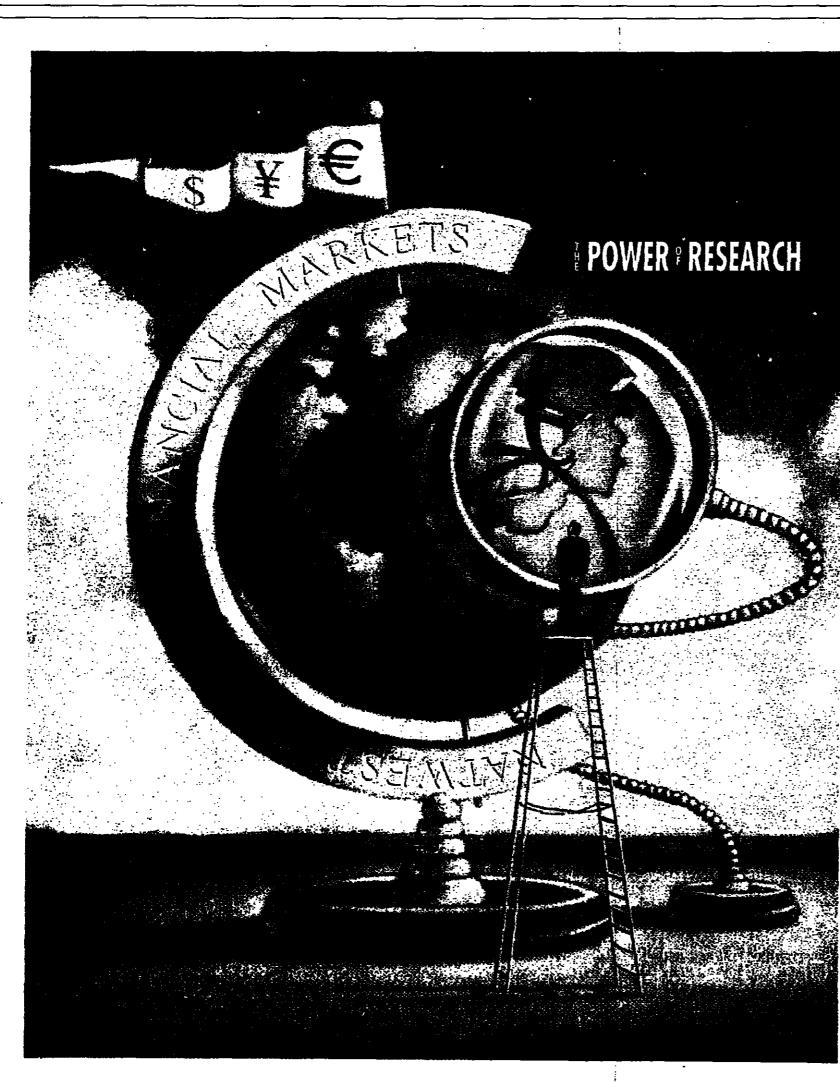
for importers as well as foreign investors. China reported a record trade surplus of \$45bn last year, but with zero growth in exports after a strong rise in 1997 its overall performance was driven by a 3.8 per cent fall

in imports. Foreign direct investment Arguably, more worrying

is evidence that such persis tent problems could act as a drag on corporate China. industries has shrunk margins so much that some manufacturers have found production unsustainable. Government data show that 51.5 per cent of mair industrial products - such as colour television sets.

refrigerators and bicycles were being overproduced Corporate earnings at profitable enterprises were 23 per cent lower in the first 11 months of this year, while losses at unprofitable compa nies rose 25 per cent, accord-

ing to the SSB. The difficult business con ditions raise concerns about the pressures on social stability, as rising urban unem ployment has alerted the government to the slowdown in new jobs being created in China. At the same time, Beijing has signalled its concern about the sharp decline in rural income growth in Some companies have the last three years by pledging that "rural stability" is a



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CANNEL VENEZING

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With the champagne celebrations now over, Wolfgang Münchau provides the answers to practical questions about the new currency in Europe

Q: The euro has arrived with much fanfare. But what will it do for the European economy? Will it help reduce unemployment?

A: No. Many leading economists say economic and monetary union (Emu) is an economically neutral event - neither good nor bad. All it involves is a nominal changeover in currencies. Everybody accepts that Emu will create more liquid financial markets, and that will have some small effect on the economy. But most companies, industries and markets will continue as before. Optimists argue that Emu will unleash a more dynamic corporate environment with lower prices and more competition.

Q: So if monetary union has little economic effect, what is the point of it all?

A: Emu is primarily a political project. It is about politi-cal integration in Europe. In that sense, it is the logical extension of the "borderless" single European market, which had profound implications for decision-making in introduced majority voting. Emu will force countries to co-ordinate their macroeconomic and microeconomic policies. It may ultimately lead to what the French call European economic govern-

Q: Will Emu trigger further

political integration in Europe? A: Probably yes, but not immediately. Emu is by members lose sovereignty over monetary policy and

have to bring their tax case for joining. systems closer together over time, although this does not mean that tax rates will be the same throughout the euro-zone.

about the risk of "asymmetric shocks" to monetary union - what does this mean?

A: Emu imposes a one-size-

fits-all monetary policy for all its members. This could be a problem for countries with different economic circumstances. For example, the Irish economy is growing more strongly than the other 10 economies in the eurozone, but Ireland is too small to influence the monetary policy stance of the whole Emu area. The Frankfurtbased European Central Bank, now in charge of monetary policy in the euro-zone. will look at the 11 countries as though they are part of a single economy. It will not pay special attention to individual countries. Countries facing particular pressures as Ireland – will have to find other ways to deal with the European Union as it shocks, for example through more labour market flexibility or mobility.

Q: What about Britain, Denmark, Sweden and Greece, which have not yet joined the single currency? Will they

A: Whether to join is a political decision for those countries, subject to meeting certain economic criteria, but a itself a big political step. Its successful start to Emu will increase the pressure to participate. In the UK, for examwill have to get used to ple, supporters of the single co-ordinating fiscal policies. currency generally focus on This means they will no lon- the perceived economic ben- supremacy of the dollar? ger be able to run large bud- efits of Emu, such as lower A: It will, but not immediget deficits without consent mortgage rates, but they ately. The euro will be a big-

Q: What about the currencles of the "out" countries? Will they be tied to the euro?

A: The Danish krone and the Greek drachma will be linked to the euro through a new exchange rate mechanism, which started on January 1. Britain and Sweden have declined to join the system. There is a dispute between those two and the others, about whether membership of the new exchange rate mechanism is a prerec uisite for membership of

Q: Can Emu collapse?

A: Theoretically, yes, but don't hold your breath. The consequences of a collapse would be so severe - economically and politically that all euro members would prevent that happening, even if it meant imposing painful fiscal measures. It is notable that during last year's financial market turmoil. although currencies outside the euro-zone were volatile, the euro-zone currencies hardly fluctuated against each other.

Q: What kind of currency will the euro be?

A: The euro may gyrate wildly in the short run, as O: What practical benefits will financial markets make up their mind whether they want to hold more or fewer euros. In the medium term, one would expect the euro to be a strong currency. The euro-zone has a strong and independent central bank and inflation has almost dis-

Q: Will the euro challenge the

constituent currencies combined. This has to do with liquidity. The fact that the euro covers 11 countries means it will be far more liquid than the DMark or French franc were on their own. The euro-zone is about the same size as the US economy. Economists C: Who are the four most important people in the cure-zone? believe the world economy A: (Pictured I to r) Wim Duisenberg, president of the ECB, C will increasingly revolve around the US and the eurozone. The euro will also

O: What kind of central bank will the ECB be? Will it be obsessed with inflation and

A: The ECB operates under a legal obligation to maintain price stability in Europe, and this limits the degree of freedom to use monetary find it in their interest to policy to encourage economic growth. European central bankers believe that growth have little to do with the countries themselves. defines price stability as an increase in euro-zone infla-

Emu bring to the average

electronic commerce via the

internet in Europe.

of the others. They may have yet to make a political ger currency than the 11

ignore economic growth?

become a large international

price differences are generally larger inside the eurozone than in comparable economies, such as the US. One would expect prices to adjust, but it is unclear whether the price transparency that comes with the euro will affect purchasing behaviour. It is true that consumers will be able to compare prices in the same monetary policy anyway but unit of account. But Eurowith structural rigidities in peans could have compared cross-border prices before The ECB, however, has said the arrival of the euro - par it will not tolerate either ticularly on big items, such inflation or deflation. It as cars. Q: But what happens if

companies face different tion of less than 2 per cent. costs in, say, Portugal and

O: It is conventional wisdom

that the euro's arrival will

mean prices for a product

zone. But is this really so?

verge across the euro-

A: Maybe. It is true that

Emu ultimately involves A: Travellers will benefit for the creation of a single econobvious reasons, particularly omy, within which one after notes and coins are would not expect different introduced in 2002. But from cost structures to persist for announced last Thursday. now it will be easier and ever. Currently, cost differcheaper to transact business ences are mostly due to difacross borders, the cost of ferences in wage costs. changing money within the Within economic and moneeuro-zone will come down, tary union, wages will adjust and the euro is also likely to over time. Broadly, real be the currency of choice for wages in Germany will remain stuck at current lev-

A: (Pictured I to r) Wim Duisenberg, president of the ECB, Oskar Latontaine, German finance minister, Dominique Strauss-Kahn, Franci ce minister, and Yves-Thibauk de Silguy, the European co The same applies to competition. One would not expect fundamentally different competitive environments to persist in a single market.

O: Why is there so much fuss about preparations? Surely, the euro is just another

A: That's not quite right. The euro will eventually be just another currency, but between now and the first half of 2002, when coins and notes are introduced, it will denominations. This transi-

lems. In this period everyone no compulsion, no prohibition". This means everyone has the right to pay in euros or national denominations. Nobody can be legally forced to transact in euros.

Q: So what do I need to do? A: That depends on many

things, such as whether you are based or have subsidtaries inside the euro-zone. the extent to which you trade with the euro-zone, co-exist with national you are in. The level of preparedness is obviously hightional phase is the cause of est for banks, while small

slowly rise to German levels. most of the technical prob- retailers need to worry less because euro banknotes and coins will not arrive until 2002. In most cases, compa nies should have the capability to handle payments by customers either in euros or in national denominations. This would probably involve changes to computer

Q: And if I have done all these things already?

A: Compratulations, and welcome to the euro-cone. be able to trade freely in what is already, alongside the US dollar, one of the

FOR NEW CONVERTS - HOW TO CALCULATE IN EUROS

Q: What are the most important rules I have to keep in mind about the euro and the national denominations?

A: First of all, you must use the official euro conversion rates, which were You will need to apply these conversion rates exactly, which means you

Be warned that several computers, including some

should apply them to a

precision of six relevant

older versions of popular spreadsheet programs. may not be capable of handling this type of

calculation. You should follow the mathematical rounding rule that a value of 0.005 should be rounded upwards to 0.01. And you should not use bilateral conversion

Q: Why not? It would make life a lot easier if I did not have to go through the euro each time I convert from francs to D-Marks.

At it would, but you can be sure that the accumulated rounding errors would become significant if you took this approach.

Q: So how do I get from francs to D-Marks? A: Through a principle called triangulation. This means that you convert francs into euros, and euros into francs, and each time you apply the six digit rule. That means that every bilateral

conversion between two

national denominations

involves two calculations.

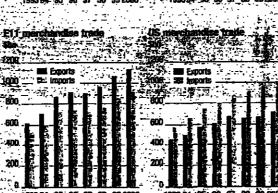
Redrawing the map: the euro arrives

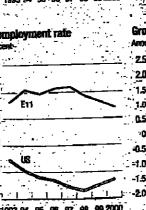
When the euro was launched on January 1, a new economic superpower came into being. The euro-zone has a slightly larger population than the US but a smaller gross. domestic product. It is a relatively closed economy - unlike. the eleven participants of the single currency, which have a 200 high level of trade with each other.

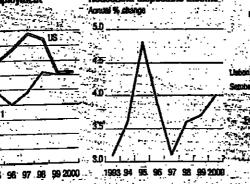
National notes and coins will not be phased out until 2002. But with interest rate convergence and industry consolidation throughout the euro-zone, the effects of the

new currency have already been felt for some time.





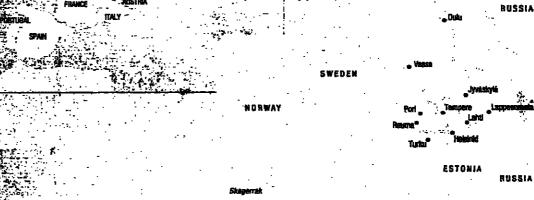


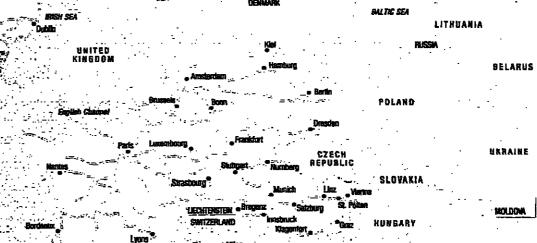














TURKEY

MOTOR INDUSTRY \$50M BOOST FOR BIG-ENGINE PRODUCTION AT ELLESMERE PORT

Vauxhall to expand Merseyside plant

By Haig Simonian in Detroit

Vauxhall will soon announce a significant new investment in additional capacity at its big-engine plant at Ellesthe north-west of England, giving a boost to the UK

Details of the spending. believed to be between £30m

show this week. Much of the Saturn expects to build at expected to climb because of Vauxhall said it would not ing 1,000 staff for a third extra output will be destined least 100,000 units of its new rising sales of the group's be applying for government shift. L-Series model being intromere Port on Merseyside, in General Motors, Vauxhall's year.

Port is GM's sole source, will also be exported to Saab, the (\$50m, €42m) and £40m, may Swedish carmaker controlled emerge at the Detroit motor by the group.

for the new mid-sized car, based on the latest Opel/ urn, the US subsidiary of ton, Delaware, later this substantially with the intro-

parent company. The company said the Additional V6 petrol number of engines exported The company said the this year. would depend on the mix of UK-made V6 models sold.

new 9-5 executive model. aid - for which Ellesmere L-Series model being intro- Vauxhall Vectra, when pro- Demand for the car, released Port qualifies - as the 78,000 V6 engines last year duced later this year by Sat- duction starts at Wilming- in 1997, is expected to grow impact on employment Apart from going into Vauxwould be limited. duction of a station wagon

engines, for which Ellesmers to the Saturn subsidiary mere Port is not, however, tance scheme after boosting expected to create many US-built four cylinder and jobs, as most of the at an adjacent plant. Last Demand from Saah is from higher productivity.

Port qualifies - as the 78,000 V6 engines last year.

attracted state funds under income through sales to The new spending at Elles- the Regional Selective Assis- Saab and to Opel in Geroutput of Astra cars, built increased output will come year, Vauxhall boosted local GM Cadillac, Page 20 employment figures by hir- GM Special Report, Page 22

The company made about hall cars, the motors gener-The company has already ate substantial export many, for the Omega and

Minimal growth forecast for flagging economy

Britain will see minimal prices index expected to and economic weaknesses in economic growth over the next two years, but is likely cent in 1998 to avoid an outright recession this year, according to forecasts published today by Cambridge Econometrics, an

economic consultancy. With household spending and investment likely to slow substantially during 1999, manufacturing will see rienced by this sector spilling into services, the consul-

1999, after an average 3.4 per

sure on the Bank of England's monetary policy committee, responsible for setting base interest rates.

average 1.9 per cent during important export markets such as south-east Asia.

> has reduced borrowing costs of the Japanese bank. on three occasions in the

Britain moving into recesuch as south-east Asia. sion," said Steve Hannah, a relatively healthy 2.8 pr Reacting to these signs of chief economist at IBJ Inter-cent increase during 1998. The findings will put press slowdown, the committee national, the securities arm The Cambridge Economet-

cent rise next year, following a relatively healthy 2.8 per telecommunications and

While manufacturing has been in the doldrums for two years, with growth in output

ease further, with the year on-year increase in the retail prices index expected to and economic weaknesses in much of the rest of Europe, (of London) expecting a cut quarters – during 1999. Total put growth in this, sector UK output will increase 0.6 will drop to 1.5 per cent, the prices index expected to and economic weaknesses in points to reduce the risks of per cent in 1999, with a 1 per consultancy believes, with some sub-sectors such as computer services likely to

continue to see substantial growth. Some relief for hardpressed exporters will come from an expected easing in Against a basket of other currencies, sterling is likely

to be traded during 1999 at last year. Valued against the D-Mark, the pound is likely to fall to an average of DM2.7 (€1.38, \$1.62) this year

past three months. At its rics report says exporters last year of 0.5 per cent following a minimal 1.5 per the exchange rate. The committee meets this cut bank base rates by 0.5 culties this year, after a fallcent rise in 1997, the service week to discuss whether fur-ther monetary easing is cent. Many economists year linked to the strength ient. For instance, "market a decline in output, with required to stimulate the many of the difficulties expering under the difficulties expering under the committee to of sterling and weaknesses services, covered by industries on the committee to of sterling and weaknesses services, covered by industries such as hotels, business services", covered by indus- 5.3 per cent below its value flagging UK economy. Over the past six months, now, with a further cut as a result of this, manufac- services and distribution, expanded by nearly 5 per economic activity has falexpected in February. turing will experience a tancy says. It expects tered as a result of high Even so, "there is a sub-technical recession - output inflationary pressures to interest rates compared with stantial minority in the City falls in two consecutive cent last year. However, during 1999, out- after DM2.88 in 1998.



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NEWS DIGEST

NORTHERN IRELAND

Irish prime minister hints at Easter peace deadline

aster is tooming as the new deadline in the Northern ireland peace process, with Bertie Ahem, the Irish prime minister, yesterday indicating that unless the arms issue is resolved by the first anniversary of the Good Friday peace agreement public support for the deal could evaporate. We will have to overcome the items on the agenda . which caused difficulties and that will include [anns] decommissioning . . . but I think in the run-up to Easter

we will be able to do that," he said. With Easter falling in early April, Mr Ahem has tacitly conceded that the February target date set by London for the establishment of the executive to take over running the province when powers are transferred from London, has now been abandoned. John Murray Brown, Dublin

BMW chief presses for aid



Bernd Piechetsrieder (left), chairman of BMW, the Ger man carmaker, has reiterated his determination to win UK government aid for the group's lossmalding Rover subsidiary. His push comes despite the recent agreement with Rover employees over working arrangements, which will produce DM400m (€205m, \$235m) in ahnual cost savings. In an interview with today's Der Spiegel magazine. Mr. Pischetsrieder noted subsidies received by Jaguar – which would provide direct competition to the new Rover 75 model.

Mr Pischetsrieder also explicitly admitted BMW had given Rover, acquired in early 1994, too "long a sh". Quality improvements had taken too long. But he added: "Now we have taken Rover much closer by the bit". Relph Atkins, Bonn

MOTOR INDUSTRY

Peugeot UK may build Citroën cars

Peugeot UK is to be more closely integrated into the French parent Peugeot/Citroen group, raising the long-term prospect of Citroen as well as Peugeot models being built at the UK subsidiary's Ryton plant near Coven-

try in central England. The closing of a once large productivity gap compared with French plants, the expected announcement of a fifth consecutive year of profits and a recruitment drive starting today for 900 more workers have put the UK company on course to play a more strategic role in its parent company's operations.

While the model being built at the plant, the Peugeot 206, was new last year and has only recently gone into production at Ryton, its successor will use a common platform - the basic engineering structure of a car - with the next similarly-sized Citroen model. This opens up the prospect of Ryton early next century meeting demand for a model carrying both brand names. John Griffiths, London

SCOTTISH NATIONAL PARTY

Row over defence paper

The Scottish National party's defence policy was in disarray yesterday after Stuart Crawford, its newly appointed deputy defence spokesman, disowned an academic paper in which he had said an independent Scotland "should at east consider" the use of ballistic missiles tipped with chemical and biological weapons.

George Robertson, UK defence secretary, said that if Mr Crawford, an SNP candidate for the planned Scottish parllament, was the author of the paper he should be

Mr Crawford said the paper, written under an assumed name for Glasgow University's Centre for War Studies, was a "speculative review" of defence options.

He said: "I wish to put on record that I have never at any time advocated the possession by an independent Scotland of nuclear, chemical or biological weapons, I am totally supportive of SNP defence policy which repudiates utterly the possession of nuclear, chemical or biological weapons." James Buxton, Edinburgh

TAXATION

Exemption certificates proposed

Taxpayers aged over 65 with an annual income lower than £10,000 should be issued with certificates cutting them off from contact with the tax system, according to the UK's leading tax body. The proposal - one of several designed to help the 10m people over state pension age of whom 1.8m live in poverty - has been put forward by the Char-tered Institute of Taxation to help older people caught up in tax bureaucracy. Under the plan, those qualifying would be entitled to get all income "gross" with a minimum of form-filling, and would not be required to fill in any tax returns or deal with any correspondence unless linked to the exemption. Jim Kelly, London

POLITICS

Blair may boost Lib Dem links

Tony Blair, the UK prime minister, is considering attaching civil servants to the opposition Liberal Democrat party to help them develop government policy. He has also discussed with Paddy Ashdown, the Liberal Democrat leader, the possibility of giving his party greater

access to confidential government papers. Mr Ashdown believes the initiative could help his party contribute more effectively to the joint Lab-Lib cabinet committee, set up in 1997 to discuss constitutional issues. By giving the Liberal Democrats access to the civil service, Mr Blair would be signalling his intention to continue building links between the parties.

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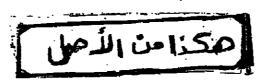


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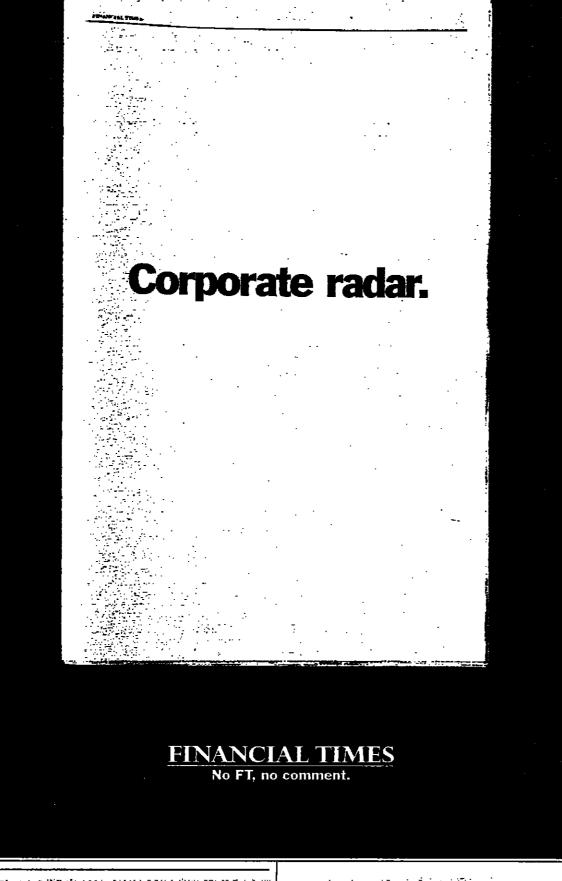
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DIVIDEND & INTEREST PAYMENTS

E TODAY African Dev Bank 11%% Ln 2010 25.5625 Amec 2.1p

BICC 4p Baxter Int \$0.291 Bowater \$0.20 Bradford Property Tst 4.49 British Aerospace Cv Rd Pf 3.875p Bunzi 2.5p

Cambridge Water 5.33p Do N/Vtg 5.33p Do 4% Cons Perp Db 92.0 Do 13% Rd Db 2004 £6.50 Cariton Comms Cv Rd Pf CPL Aromas 1.9p

Exeter Inv Tst 4.5p F & C Special Utilities Inv Tst 3.69p Do Package Units 3.69p Do S 2.23p Fortnum & Mason 4p Gencor 6% Gross Cm Pf R0.06 General Accident 8%% Cm Pf 4.4375p

Guardian Royal Exchange 4.3p Guinness Flight Extra Inc Tst 2.12p Do Units 2.12o Henderson Far East Inc Tst

Hercules Property 4p HIT Entertainment 0.55p Housing Fin 9%% Db 2025 £4.8125 Johnson Service Cv Rd Pf 3.75p

1.7p

Land Securities 7.85p Lloyds Bank 12% Số Bở 2011 £1200.0 Locker 0.3p Lyles (S) 2p Macdonald Hotels 1.82p Martin Int 0.55p McCarthy & Stone 3.5p McKechnie 14p MEPC 10%% 1st Mtg Db 2024 £5.375 Met Water Board East

London Waterworks 3% Db £1.50 Morrison Construction 1.98p Mucklow (A&J) 4.0264p New South Wales Treasury 111/2% Gtd Exch Bd 1999 A\$575.0 Photo-Me Int 4.5p Premark Int \$0.10 Rio Tinto 3.325% A Cm Pf Do 31/2% B Cm Pf 1.75p

Savoy Asset Mngmnt 2.25p Sears Roebuck \$0.23 Silentnight 3.7p South Staffs Water 37.5p Stratagem 3p TBI 0.5p

Temple Bar Inv Tst 4.2% Cm Pf 2.1p United Biscuits 3.6p Vitec 4.3p Warner Howard 3.85n

■ TOMORROW Adam & Harvey 8p Airflow Streamlines 2p Annuities 21/2% 20.625 Annuities 234 £0.6875 BWt 3p

Banner Homes 1p Birmingham Midshires Bldg Scty 95% Sb Nts 2006 £4562.50 British American Tobacco 8p Brown (N) 2.4p Browning-Ferris \$0.19 Business Post 5p Consolidated 21/2% £0.625 Coventry 81.4% Ln 2026 £4,125 Croydon 315% \$1.75 Dee Valley 7.2p

Do N/Vtg 7.2p East Surrey 4.4p Edinburgh Inc Tst 0.9p European Colour 0.955p Do 61/2% Cm Pf 6.3p European Telecom 0.9p **Hurlingham Properties 1p** Jarvis Porter 2.5p Murray Smaller Mkts Tst 2n Nat West Bank 121/2% Sb Un Ln 2004 £6.25 Powell Duffryn 8p Salford 8%% Ln 2027-31 £4.125

Saville Gordon 75/8% 1st Mtg Db 2023 £3.1825 Unigate 7.9p Walker Crips Weddle Beck 1.75p Westbury 2.60

■ WEDNESDAY

JANUARY 6 AFT 0.83p Bandt 0.5p Black Arrow 1.5p Body Shop 1.9p British Empire Sec & Gen Tst 0.86p Close Brothers AIM VCT £1.875 Delyn 1p Development Secs 11% 1st Mtg Db 2016 £5.50

Great Portland Estates 3p Ivory & Sime UK Smaller Co's Tst 1p Luminar 2.5p Mitsui FRN 1999 Y12778.0 Morgan Crucible 7.4p Do Cv Pf 3.75p Photobition 1.28p Pillar Property 2p Scottish American Inv 1.36p Scottish Metropolitan Property 2p

Şedgemoor 0.6p Shanks & McEwan 1.60 Sims Food 0.25p Smith (WH) 51/2% Rd Un Ln

22.5625 Smiths Inds 12.9p Wardle Storeys 15p Whitbread 1016% Un Lin 2000-05 25.25

THURSDAY JANUARY 7 Anglian Water 12% Bd 2014 £1200.0 Asahi Bre 1999 Y700000.0 Baird (Wm) 4.1p European Motor 2.60 Freeport Leisure 1p Furukawa 5.55% Nts 2000 Y555000.0 Guaranteed Export Fin 93/4% Gtd Ln 2010 £487.50 Hicking Pentecost 2.7p Hidden Hearing Int 1.03p Kobe Steel 6.9% Bd 2000 Y690000.0 Kubota 6.9% Bd 2000 Y690000.0 Mercury Europe Privatisation Tst 0.65p Sapporo Breweries 5.9% Bd 2003 Y590000.0

Second Scottish National Tst 0.8p Sony 674% Bd 2000 Y687500.0 Staveley Inds 2.5p TGI 1.2p Tracker Network 2.5p United Kingdom FRN 2001

\$12.94

JANUARY 9 4,85p

FRIDAY **JANUARY 8** Abbey National Treasury 9%

Gtd Bd 2004 L450000.0 Angle American Corp of South Africa R2.75 Belhaven Brewery 2.35p Comorate Services 71/5% CV Nts 2005 £37.50 Cradley 1.38o

JBA 1,250

Cropper (J) 1.4p Dart 1.27p Eleco 0.25p **EMAP 5.7p** Fine Art Devs 2,25p Formscan 1.5p Friendly Hotels 2.3p Grantchester 0.7p Inter-American Dev Bank 121/2% Ln 2003 £6.25 Invesco English & Int Tst 0.8p

Malestic Wine 1.7p Schlumberger \$0.1875 Scottish Inv Tst 2.25p Solid State Supplies 0.5p Southnews 4p Tiger Oats R1.20 Do 51/9% Gross Cm Pf R0.055 Treasury Fitg Rate 2001

SATURDAY Govett Strategic Inv Tst

UK COMPANIES

■ TOMORROW COMPANY MEETING: Diploma, The Brewery Chiswell Street, E.C., 11.00 BOARD MEETINGS: Euclidian Precoat Int

■ WEDNESDAY JANUARY 6 COMPANY MEETING: MMT Computing, 14, Angel Gate, City Road, E.C., 11.00

E THURSDAY JANUARY 7 COMPANY MEETING: Formscan, Woolverton House Hotel, Woolverton, Bath, 11.00 BOARD MEETINGS: Interims:

Goode Durrant

FRIDAY **JANUARY 8** COMPANY MEETING: GET Grp, 222, Grays Inn Road, W.C., 3,00

Company meetings are

annual general meetings unless otherwise stated. Please note: Reports and accounts are not normaliv available until approximately six weeks after the board meeting to approve the preliminary results.

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Fax: +44 171 873 3067 -mail: catherine macsweeney@fr.com LONDON FEBRUARY 15 1999 FT London Motor Conference

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Pensions events to be arranged by the Figureal Times Group will examine the challenging shape of European pensions. issues to be considered include: the challenges facing the multinationals, the euro - three months in and the European Contact: Catherine MacSwe Tel: +44 171 873 3162 Fax: +44 171 873 3067

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INSIDE TRACK

PROFILE FRANCK RIBOUD, CHAIRMAN AND CHIEF EXECUTIVE OF DANONE

Ahead of the crowd

John Willman and Samer Iskandar find the French business chief has a commitment both to have leading positions with the amount (in the US) as in Europe. shareholder value and outrunning the competition

crowd at a football match.

"A stadium with 50,000 people is a wonderful thing," says the tousle-haired chairman and chief executive of Danone. "I love to be

part of the fête [party]."
Understandable for a self-confessed sports fanatic who has just joined the board of Paris St Germain, one of France's leading soccer clubs. But not what one would expect from a French business chief who delights in standcommitment to Anglo-Saxon concepts such as shareholder value.

Yet Mr Riboud sees no difference between playing the sports he loves and running a large consumer company on behalf of the shareholders. Whatever you do, you should aim to be in the top team - and that means outrunning the competition using all the weapons available to you.

"Better a good garagiste mechanic] than a bad bachelier [high school graduate]," as his father Antoine, who founded Danone 30 years ago, used to say. "It didn't matter so much if I

didn't do well in class," says Mr Riboud. "But with football or skiing or tennis, my father always said you were wasting your time if you weren't in the best team."

There is nothing Franck Shareholder value has cer-Riboud likes quite so tainly helped Danone pull away much as to be in the from its competitors in the two and a half years since Mr Riboud succeeded his father at the helm. The group, once a sprawling food conglomerate, has been dramatically transformed into a business which focuses on dairy products, biscuits and water.

Low-margin businesses such as grocery and confectionery, which accounted for more than 10 per cent of sales, have been sold. The BSN glass container division the original Danone business ing out from the crowd with his has been pooled in a joint venture with Gerresheimer of Germany for stockmarket flotation in the future.

The group has bought back shares, jumped over the necessary corporate governance hurdles for a Wall Street listing and adopted return-on-capital targets to measure performance. The reward has been a doubling of the share price since Mr Riboud unveiled his restructuring in May 1997 - a stock market reassessment that has catapulted Danone into the league of giants that place. includes Unilever and Nestlé.

Mr Riboud says his strategy is very simple: "We asked ourselves how we could match those companies two or three times bigger than us while competing with specialists half our size, such as

Kellogg's or Barilla. We decided the strategy, you can imagine to refocus on products where we everyone could drink the same greatest growth potential."

yoghurts. Danone has 15 per cent we have 15 per cent of the global of a global market valued at \$37bn (£22bn) and there are no close contenders for the title of world's biggest yoghurt maker. Its share of the \$34bn biscuit market, at 8 per cent, is far ahead of Nabisco, the number two.

In bottled water, Evian and the rest of the group's stable have more than 10 per cent of the

"I was born in the right place but if

I had not been the

right man for the job, I would not have got it'

\$21bn global market, coming second only to Nestlé. Danone has recently boosted its position in the US market by buying Aquapenn, which should produce cost savings as the two businesses are merged and take it into third

"The bottled water market is growing at 15 per cent a year," says Mr Riboud. "The potential is - western Europeans drink around 100 litres a year, while

Americans drink 15. "if you have the brands and

to apply economic value

international group that brings

together people from many

nations who respond to the

added throughout the

Corporate culture: an

There is the same potential in In fresh dairy products, such as biscuits. And in dairy products, market but we get that from just 8 per cent of the world's popula-

He also expects to gain market share from the growth in consumption of branded products. "Look at India, where the mar-

ket for biscuits is 1m tonnes a year, of which 360,000 tonnes is branded. Our share of the branded segment is 39 per cent but every day of every year consumers with growing buying power switch from bulk products to branded packs."

Danone, the brand, already has sales of FFr25bn (£2.65bn) a year, making it one of the world's largest in food. The group's top five brands account for more than half the FFr90bn annual sales. "The brand strategy is clear: as few brands as possible with maxi-

mum turnover behind them. That allows you to maximise advertising spending, new product development and research. The faster growth in branded

products in emerging markets is behind another of Mr Riboud's targets: to raise sales outside western Europe from around 5 per cent of the total in 1992 to a third by 2000. Today it has reached 24 per cent, helped by acquisitions such as Acqua, Asia's largest water business, and Delicja, the leading biscuitmaker in Poland.

The disposals are largely over, he says, if only because selling any of the remaining businesse at current interest rates is likely to dilute earnings. That applies particularly to Danone's brewing operation: Kronenbourg in France has more than half the market, while San Miguel is the leader in Spain with almost a third of market share.

"This a very good business in terms of cash-flow. It creates value for the shareholders," Mr Riboud enthuses.

"I have the leading brands in France and Spain and no one can touch me in those countries. Within two or three years, there may be some consolidation in the European brewing industry and we will have two beautiful tickets for that.

"It is not for sale," he adds emphatically.

At 43, Mr Riboud has emerged from his father's shadow. He evi- jary while waiting for his green of running a business he says he never intended to join.



neer, his intention was to pursue his love of sports by working for

in the US. ing with France's world champi- good manager. onship team and decided to get Danone's Panzani pasta subsid-

with the family company.

"I started as a sales representa-Rossignol, the ski manufacturer, tive without any idea of becoming chairman. I just did my job He had spent a year wind-surf- step by step as a good rep and a

"My father never told me I was some business experience with going to be chairman - that was never his idea. The first time he discussed it with me was when I dently gets great enjoyment out card. The North American snows was running the Evian company failed two years in succession, in 1992, four years before I Danone has to be very flexible, Rossignol closed its US factory became chairman.

and I have been very lucky but if I had not been the right man for the job, I would not have got it " Looking ahead, Mr Riboud sealshis main challenge being to kees Danone evolving and to stay ahead of the competition.

"Ours is not a one-shot strategy. We are living in a fast-moving world that is changing more quickly than ever. A group like very responsive."

development in 1992.

Essential Guide to Franck Riboud

Born: November 1955. Education: graduated with a diploma in engineering from the Switzerland in 1979. Career ladder: joined the BSN Group in 1980 and worked in a variety of jobs, primarity in sales and marketing. Positions included brand manager, sales representative, regional manager, sales manager, key account sales manager and department manager at head office. Has worked in most of the group's divisions, including grocery, fresh dairy products, biscuits and rnineral water.

Was involved in the 1989 acquisition of Nabisco's European operations, then the largest acquisition in the US by a French group, which made BSN Europe's biggest biscuit-maker. General manager of Evian Water in 1990, he acquired Volvic in

1992 and launched a new mineral water: La Salvetat. Became general manager, Responsible for the internationalisation of the group which led to the adoption of the Danone name in 1994, Joined the board in August 1994 as vice-president and was appointed chairman and chief executive, succeeding his father Antoine, in May 1996.

 to refocus Danone around fresh dairy products, biscuits and beverages - mainly water.

to internationalise the group by raising sales outside western Europe to 33 per cent of total. • to lift sales of Danone brand to FFr40bn a year by 2000. to raise operating margins to at least 10.5 per cent.

invested capital of 10 per cent.

to achieve a return on

challenge of working for Danone. Top executives come from a range of companies, including PepsiCo, Procter & Gamble and Benckiser. Wants the culture of the group to be "Latin" in its openness to new ideas, the enthusiasm of those who work for it and its "humanism". Time out: loves all sports. including football, rugby, tennis, skiing and sailing. Board member of Paris St Germain. Reads L'Equipe every day. Father of three children. Likes to get away from work at weekends to spend time with his family. Believes "life balance" between work and play

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TIM JACKSON ON THE WEB

Online shopping with a click on your wallet

A piece of software which stores personal information and credit card data could save users hours on their home PCs

If you have ever sighed with irritation at the prospect of supplying your personal details to a web site for the umpteenth time in a month, Bill Gross of IdeaLab has a

product for you. IdeaLab is a company in Los Angeles that acts as an 'incubator" for new electronic commerce ventures, providing finance, infrastructure and expertise for start-ups in return for fees and a slice of equity. Familiar names from ideaLab already mentioned in this column include WeddingChannel.com, eToys IdeaMarket and GoTo.com. Some of the company's ventures come from

entrepreneurs who bring in ideas. The latest is one generated by Mr Gross nimself. Called eWallet, it is wondrously simple. Mr Gross's idea is a piece of software sitting on the PC where you keep personal and credit card data, which can be released to a web site in a single point-and-drag operation - saving you the trouble of entering the same data hundreds of times.

The software, freely available at *oww.ewallet.com.* took me five minutes to download, five seconds to install, and another four minutes to set up. When powered up. it shows a window that looks like the front of a leather

To run it, you need only type your name and a password. The wallet then opens, revealing on the left hand side a set of "pockets" containing Visa and Master cards, plus a "card" for your personal data. On the right side, the wallet contains a set of shopping "buttons" that take you in a single click to a number of prominent merchants.

Now comes the clever bit. Next time a web site asks you for information, you power up eWallet and simply drag an icon from the eWallet window over to the web page. This will then automatically enter the appropriate details (card. personal or both) into the web site's registration form, leaving you to make the final decision whether to click the submit button and

send the information. The package works entirely on the client side on your PC. Rather than sending anything over the Web, or giving information to an eWallet server, the software contains a set of mappings that guess what fields are required on the web site, and ensures that the appropriate information from your wallet is delivered. The result is that entering the data once may save you from typing it hundreds of times.

eWallet requires no programming from merchants. The company's technical team has already visited the 200 most popular e-commerce sites (accounting, they believe for 90 per cent of online sales) and made sure that the software works correctly

with their web forms. For smaller merchants, a free software tool will be introduced in 1999 that allows them to make their registration forms eWallet

I had expected the company to offer the software free, but to charge web site and e-commerce merchants a fee each time it is used to provide them with a new customer's information. That is not the strategy outlined by Francis Costello, 30, a former

McKinsey consultant and Harvard MBA who is eWallet's chief operating officer. Although Mr Costello fudges the question with a "no plans at present" formula, it sounds as though the plan is to make money only from selling promotions inside the wallet to business partners.

"It's about putting something on the desktop that people use when they go shopping; creating a valuable piece of real estate," he explains.

The secret is that eWallet contains an "update" function, by which it periodically checks for an internet connection, phones bome and then downloads special offers and promotions. These may be deals on

products and services sold online, or on credit cards. The package also has links to search engines, so eWallet could make referral fees from portals, too.

Mr Gross had the idea in April, and the product was ready for launch the day before Thanksgiving: November 25. Since then, Mr Costello says the package has been downloaded 250,000 times. Mr Gross had hoped for 1m downloads in 1998,

but the figure is still

According to Mr Costello, eWallet has spent \$1m on development and running costs plus another \$1m on a radio and online marketing campaign to encourage

Mr Costello explains that eWallet users' high propensity to buy make each customer very valuable. Although it is too early to tell, he expects each download to be worth between \$10 and \$200 to the company. Gearing up for growth, the

company has opened offices

in San Diego, is increasing staff from 20 to 25, and is planning joint marketing deals with merchants. I have only one concern about the business model. By comparison with other software, it suffers from a small problem. Because many content sites have given up asking for registration information most users will start out expecting to pull out the wallet only when they make a first purchase with a new merchant; something that happens less often than one might think, particularly as customers become used to

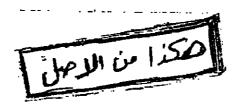
The company may find that the number of times each month users look at their eWallets is an important factor in its valy: If the number cannot be raised quickly, the business may turn out to be less attractive than it first

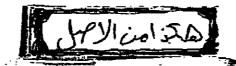
dealing with a small number

of trusted merchants.

tim jackson@pobox.com

Lucy Keliaway returns next





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The only name you'll need today. Forget that first coffee. Forget arranging lunch. Forget everything until you've typed EURO on your Reuters screen. Right, you have now got access to all the information you need to start trading. What? By all means, take your jacket off.

BUSINESS TRAVEL THE COST OF FLYING

The highs and lows of air fares

The introduction of the euro will increase airline price transparency and reveal anomalies, writes Gillian Upton

The arrival of the euro will reveal the significant differences in the fares European airlines charge their customers for flying the same route. But there is little chance that increased price transparency will force down air fares this year because demand from business travellers is so strong.

The anomalies originate from

before airline deregulation in 1993 when the International Air Transport Association, in which airlines negotiate fare structures, set all air fares. The five or six published fares that existed then were set in currency units which equated with the dollar. Discrepancies arose but only some of them were corrected.

Over the past five years airlines have been able to set their own fare levels, responding to supply and demand and the presence or not of a low-cost carrier. Today, there are as many as 40 fare levels on any route.

Airlines adjust their fares according to the time of day, demand for seats, time of year and relative strength or otherwise of exchange rates. This maximises the airline's revenues but penalises customers who want to fly a popular route or travel at a busy time, and even for flying into a country whose currency is stronger than their own.

The recent competition from low-cost airlines has helped bring down air fares but discrepancies have been shielded within Europe by different exchange rates. The euro should reveal these differences because, with a few exceptions, there will be the same currency at both ends of

"We know there are price anomalies and they will be something to bargain with the airtravel for British Aerospace Defence Systems, a division of British Aerospace, "The airlines are not giving us any promises and in the short term there are going to be no gains at all."

Here is an example. It costs L330.000 (£119) for a business traveller to fly economy class on Alitalia from Milan to London City airport, but L299,000 (£108) for the same executive to return from London City to Milan. Alltalia explains that the 8am flight from Milan, which gets to London at 9am, is very popular because it allows a full day's work. But the inbound flight from London leaves at 9.30am, reaching Milan at noon. Half the working day has gone. To stimulate sales out of London, Alitalia offers seats at lower prices. There are much larger differ-

ences, usually offered by a national airline outside its home base and always by foreign airlines. A British business person wanting to go to New York would be more than £700 better off flying Concorde on Air France via Paris than flying from London with British Airways, the home carrier. The Air France London-Paris-New York air fare is £4.984 compared with the BA direct flight fare of £5.706. BA's higher price reflects the greater demand in London than in Paris for flights to New York on Concorde.

Travellers will obviously weigh

'The introduction of the euro will make business travellers aware of how much money airlines are making out of them'

up the extra travelling time bership of the Institute of Travel involved against the saving. For the chairman of a multinational it might not be a persuasive argument, but for a small- to mediumsized company a £722 saving is

People do not mind changing



general manager of Airline Network, which sells discounted business-class air fares. "It may add an hour and a half to their journey but it may save them £1.500. If you're flying that route

10 times a year you can't say no to a saving of £15,000." Half the 750-strong UK mem-

chasers and its chairman.

Loraine Holderoft, is looking

carefully at European air fares.

"There are a lot of price differen-

tials currently being excused by

exchange rates and we'll take

nificant price anomalies". The AEA's complacency is echoed by leading European airlines. "We will have to react to route-specific demand factors for [the effects of the euro] and what the competition is doing and the potential loss if we lower the air fare," says Margit Napier, a manager for Lufthansa's biggest Management are big travel purglobal corporate accounts.

demand from business travellers.

they are obviously not inclined to

do so. The Association of Euro-

pean Airlines (AEA) says it is not

an issue for its member airlines,

despite knowing "there are sig-

downward pressure on pricing, not is another matter", says Peter Cornwall, director of sales. A few airlines have been taking

KLM believes there will be

action before the euro's introduction. Aer Lingus's spokesperson the euro will not put the airlines Declan Conroy says the airline under any obligation to lower has made small price adjustfares and because of the strong ments over the past 18 months

> A recent Paribas study on aviation and the euro gives no hope to consumers of lower air fares. It concluded that "air fares will remain completely dominated by

cific time of the day". Although the euro will not help reduce air fares in the short term, it will make business travellers aware of how much money airlines are making out of them. They can only hope that compa-"but whether we accede to it or nies with a lot of purchasing muscle will put pressure on air-

one flight or one day at one spe-



Change in airline ticket pricing prompts warning

Watch out for sneaky fare increases as airlines prepare to change the way they show ticket orices, warns Britain's Guild of Business Travel Agents. Its suspicions have been aroused by a Civil Aviation Authority decision to allow carriers flying from the UK to separate the passenger service charge, which covers airport extras such as security. policing and the provision of flight information. The change is expected to come into effect early this year. The guild is advising members to add the separated elements to ensure they do not exceed the previous equivalent fare. It is also recommending that all business travellers do the same. "We cannot understand why the CAA is allowing a quite normal cost of doing business to be shown separately as though it is a tax." says Don Lunn, chairman of the guild's air working party. "With the government's APD [Air Passenger Duty] already on the tickets, this is just a way of adding to the complexities of air

Marco Polo opens hotel in Davao

The Marco Polo group, based in Hong Kong, has opened a hotel in Davao, the fastest growing city in the Philippines and main economic centre on the southern Island of Mindanao. This is what is known as a "soft opening", so "to move towards an equalisation, particularly on only half the 245 rooms and suites are ready for use, but the one-way and business-class outdoor swimming pool is available and most of the restaurants are functioning Everything should be open by March, according to the company - including two executive floors. The hotel is in Davao's business district, which s some 15 minutes from the

> Other facilities, which are either open or close to completion, include a 24-hour business centre, meeting rooms with state-of-the-art audio visual equipment, and a gym. Guests staying at the hotel are being offered 50 per cent off published rates until the end of June.

Hotels to make 'recession' offers

British hoteliers will offer value added packages rather than discounts to tempt business customers if the UK slides into recession, predicts
London-based BOO Hospitality Consulting. These could include bed, breakfast, dinner and a bottle of wine thrown in at a guaranteed price, making it easier for corporate buyers to control travel budgets. Jonathan angston, joint managing director, says: "I think hotels are in better condition to take this approach than they were during the last recession. Then there had been such huge demand that they suffered a hard landing. Now they are already offering better value for money and will be seeking to take pre-emptive action rather than get into a spiral of discounting, from which it is so difficult to recover." Is the industry seeing signs of a downturn? Business guests are cutting short their stays, he says, "but are still not haggling over prices at the desk*.

BA to issue Go flight vouchers

Business travellers paying full fares with British Airways' low-cost subsidiary Go will receive vouchers worth £40 towards the price of subsequent flights with the airline. The deal is available to customers travelling from today until February 10, and the vouchers, which are transferable, can be used on any flight taken by March 25. Launched last spring, the carrier operates from London Stansted to Rome, Milan, Bologna, Venice, Copenhagen, Munich, Lisbon and Edinburgh.

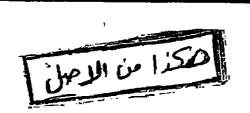
Passage to India

Travellers to India may soon be able to get visas on arrival. Reports suggest the Indian government is considering the move as a way of attracting more tourists. With 1999 designated "Visit India Year", travel companies hope the change will take place by the spring.

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Roger Bray





HELLO, HELLO ANYONE IN BALTIMORE

COMPLETED THEIR ASSIGNMENT?

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Hotels to make

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Passage to India

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Roger Bray

long range could hit the target

BUSINESS EDUCATION WHARTON DIRECT

*Lessons at

Wharton's distance learning experiment is being watched ciosely, writes

John Authers Every Wednesday evening for six weeks late last year, a group of young executives gathered in a small lecture room near Grand Central station in Manhattan. The room bears a passing resemblance to the bridge of the USS Enterprise, and they sat in comfortable swivel chairs with a computer console at each desk. For three hours at a time, they battled with the most demanding con-

threw at them. The sessions were intense, with the professor frequently stopping to call for contributions from individuals. Sometimes he asked for a show of hands on some contentious issues. At others nated by the business the students broke out to schools of state universities, discuss a case, illustrating points with a squeaky pen making chains run by comon a board.

cepts a business professor

They whispered to each other, and took away assign- national names. ments, knowing that they could check them on the web for the rest of the week.

quality of the technology and the lecture room - was that it was repeated simultaneously in 29 cities across the US. Despite the intense business school air, 260 them. I think others are students took each class at

appeared on a large screen, try this one out by themis a member of the faculty at selves." the University of Pennsylvania's Wharton school.

ambitious attempt to offer a full Wharton executive education to a mass audience, without watering down quality or damaging the school's brand.

The project is a joint venture with Caliber Learning. a company which spun off in 1997 from Sylvan Learning Systems, a large private-sector education provider. It is now testing the potential of applying "distance learning" - usually taken to mean correspondence courses or education offered over the internet - to high-grade business education

Wharton Direct's potential significance for executive education in the US is immense, and the rest of the business school sector is watching closely.

There is vast potential demand for executive education to be packaged so that it can fit into a busy career, but it has so far been domiand the private sector profitpanies such as Apollo and DeVry - not the bigger inter-

According to Dave Wilson, head of the Graduate Management Admissions Coun-What was unusual about cil: "Wharton Direct has the scene - apart from the really turned up the heat. What you are seeing with Wharton and Caliber is a natural alliance. Now all of going to follow with something like it, but I think they The professor, who are prepared to let Wharton

One of the key advantages of the service, he points out, The scheme is called is that it allows executives



around the country - an advantage that conventional universities cannot match.

sector chains has been to try to form large alliances of universities in different regions, an exercise traught with academic politics. The division of responsibil-

ities between Wharton and

to keep up with the course developing software which room on a screen, and \neg even if they are moving allows for much more inter- following cues offered by executives, covering subjects activity than is possible over facilitators - can suddenly such as understanding finanthe web.

This requires human Until now, the only way to back-up. Each professor, sit-compete with the private- ting in a room in Philadelphia, is surrounded by a group of eight teaching assistants - mostly drawn from the ranks of graduate students or junior research-

As participants around the

Professors can watch each classroom on a screen and can put a class on the spot with an unexpected question

is responsible for all acaprofessors and setting the curriculum. Caliber provides these students can have all the infrastructure to Wharton interacting with make the project work, including the networks, the software and the lecture halls.

investment in developing piece. infrastructure for distance learning, installing well-

Caliber is clear-cut. Wharton country ask questions, by sending a typed message, the demic content, providing assistants can either answer them directly, or pass them on to the professor, who may answer them "live" for the rest of the nation.

Each classroom around the country has the backing of another facilitator, armed Caliber has made a big with a headset and mouth-Professors are working

hard on translating their they did in real classes. equipped lecture rooms style to the new medium. throughout the US, and They can watch each class-

put an individual classroom on the spot with an unexbusiness case, leadership pected question: "Say, bow's and negotiation skills. all this sound to you at the

oment, Minneapolis?" Minneapolis suddenly appears on screens around the country. A student. taken off guard, says: "Er, it's pretty unrealistic."

The banter continues, with the aid of graphics on a the Wharton Direct style of board, and with exhibits that learning, they will be able to appear on the screens at stu-sell far more courses, at only dents' desks. Students can access all the transcripts each participant, at little from each three-hour session extra cost to the institution. on a secure web site for the rest of the week.

At the end of the course, business plans they have drawn up over the six weeks can be physically submitted to Wharton professors for evaluation. In New York, students

seemed to enjoy themselves, commenting that the array of methods at their fingertips to help them participate and interact with professors actually encouraged them to become more involved than Initially the courses are

Wharton Direct is an firmly in the mainstream of attempt to apply that lesson.

for them.

concerns for middle-ranking

cial statements, making a

Each lasts six weeks, so

that students are not asked

to make too big a commit-

ment to the new medium for

The economics for Whar-

ton and Caliber are clear-cut.

If enough students warm to

a slightly reduced price for

One case study students

worked on last year set the

perfect example. It looked at

how Johnson & Johnson

industry by shifting to dis-

posable lenses. This way, the

Wharton professor

explained, customers found

them more convenient. They

paid less for each unit, but

they bought far more units.

making the whole business

much more profitable for the

pay too much money).

NEWS FROM CAMPUS

New Zealand university means business

Business programmes for Maoris are on the agenda of the newly appointed assistant vice-chancellor of the commerce division at the University of Otago, in New

David Buisson, who will take up his position in February 1999, hopes to build the division into a leading business school. The priority for Prof

Buisson will be to appoint a board of senior business leaders who can advise the division. Other goals include

outreach programmes for greater involvement in the local community. cross-divisional academic programmes and the formation of a community of Asia Pacific management schools. University of Otago: New

Zealand, 3 479 1100

Count on Yale for finance

Empirical corporate finance will be the next topic for discussion at the Yale School of Management's newly-created International Centre for Finance. The centre is under the directorship of finance professor William Goetzmann.

By autumn next year it should be housed in one of Yale's landmark mansions -This is potentially lucrative which is now being restored opposite the Yale president's house.

6006 revamped the contact lens lese pattern emerging

> lese, the business school in Barcelona, has set up a centre for Emerging Market Studies (Cerns) to provide business with information

about emerging markets and, in particular, the possibilities for direct and indirect investment in these

countries. Last month lese inaugurated a Centre for Latin American Business Studies, designed to help companies operating in Latin American markets. The centre has been formed by academics from lese and its sister schools in Latin America and will conduct both research and teaching projects.

Babson initiatives

US business school Babson has announced three initiatives to reinforce its expertise in entrepreneurial

leadership. The first is the Frederic and Jane Hamilton \$500,000 entrepreneurial scholarship programme which will provide scholarships to tive students each year who enter the two-year MBA programme from an

entrepreneurial background. The second is the expansion of the business development hatchery to enable five student enterprises to operate rent-free for a

semester. And the third is a seed capital fund of \$200,000 to finance businesses set up by recently-graduated stud-

Babson: www.babson.edu Edinburgh

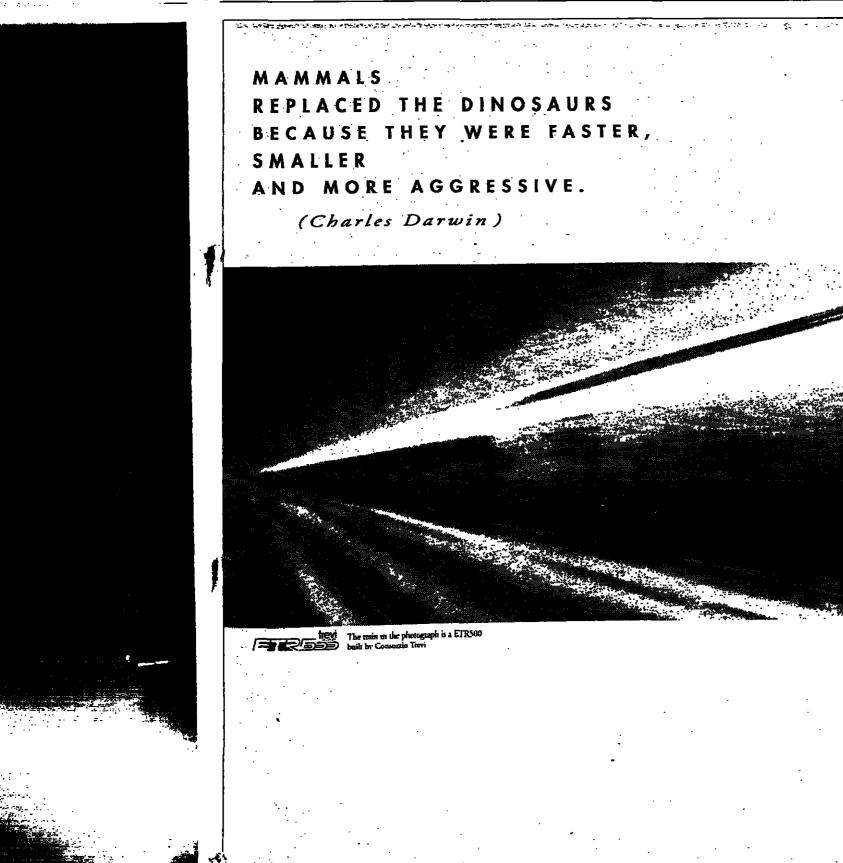
conference The management school at Yale SOM: US, 203 432

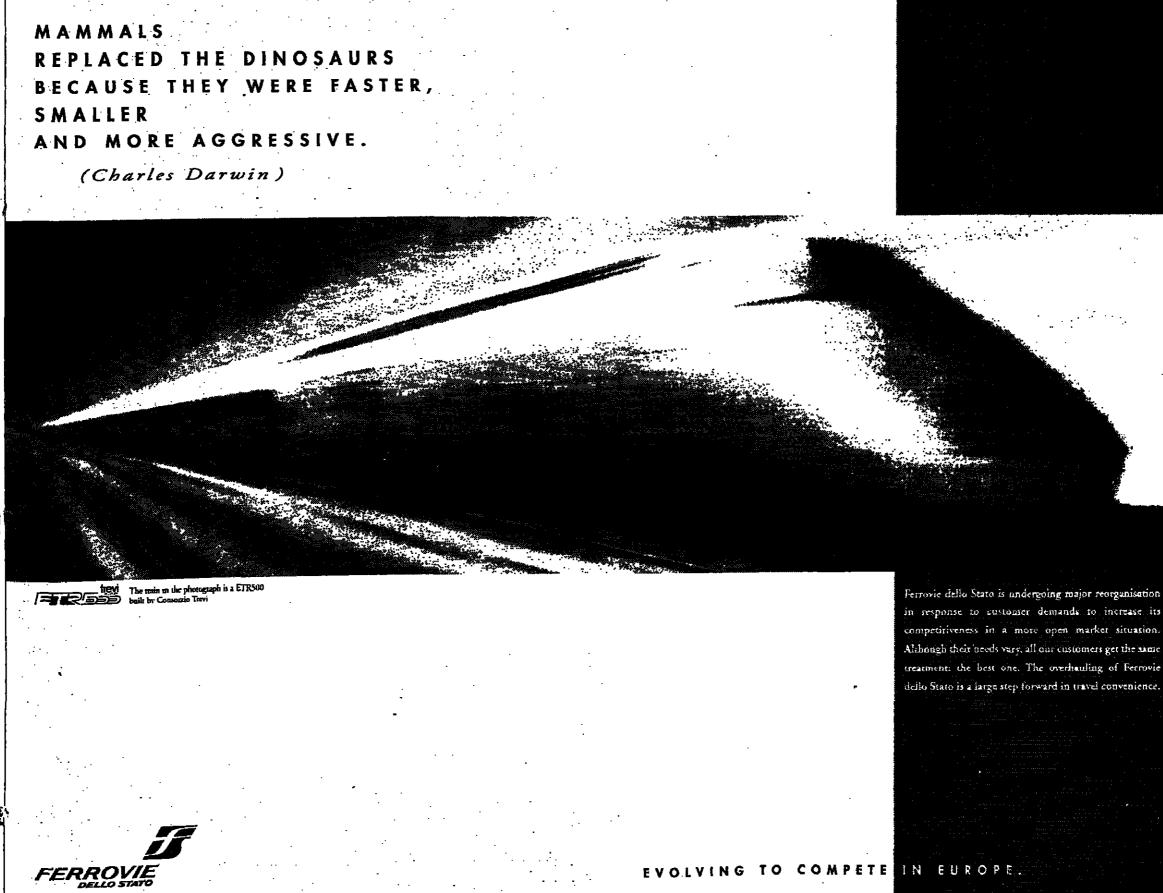
the University of Edinburgh will host the European Foundation for Management Development conference to

be held in June 1999.

The two-day conference will address the theme "Building new connections preparing managers for a different world". Edinburgh University: www.ed.ac.uk

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SET 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950





Cashing in on a tailor-made world

Predicting which products are going to be in demand is big business, writes Helen Jones

cats and dogs, snacks cats and dogs, snacks to combat depression, clothing with an in-built will soar," she forecasts. massage facility, and sleep machines to provoke intense dreams. These are some of the products and services 21st-century consumers can futurologist Marian Salzman in her book, published todav.

Ms Salzman is head of the Brand Futures Group at advertising agency Young & Rubicam and travels the globe spotting consumer trends for clients which include Ford, Sony, PepsiCo and Citibank.

Her aim is to provide an companies, keeping them up to date on consumer behaviour and identifying the way in which changing lifestyles could affect their brands in the future. New trends are identified through interviews with academics and scientists, as well as groups of consumers judged to be at out undesirables the cutting edge of fashion.

"Marketers have always needed to understand consumers' current concerns and experiences with their century of life. Expect to see brands. But if they are to them driving top-of-thethrive in the years ahead, range cars, she says. they must anticipate where technology, social trends and myriad other change agents are leading, so that they will have a place in the consumer future," she says.

One of the most important emerging trends is that "mass marketing is becoming obsolete in high-tech cultures. As consumers we are being led to expect products in the US a third of consumthat meet our specific needs ers regularly eat foods rec-- Levi's makes computer- ommended for specific ised-fit jeans to your exact health conditions and half surements, for instance. want food that can boost the And parents can buy person- immune system. Snacks

for their children. Demand for these types of products Entrepreneurial compa-

nies will find plenty of business opportunities if they target the increasingly ageing population, she says. By look forward to, according to futurologist Marian Salzman cent of the US population will be over 65 and this group will influence everything from financial products to easy-to-open packag-

"We will see great shifts in attitude regarding age. This group's power will increase. images of the elderly as vicand they will increase their "early warning system" for economic power as they companies, keeping them up move into their second half-

> Members-only parks which promise to keep will spring up

Meanwhile, the "oldest olds" - those in their

nineties and beyond - will be looked after at day-care centres, along with underfives and pets, while the economically active are at work. Demand for food with added health benefits will also rise as the world's population ages. Ms Salzman says

"The chasm between those who do and do not have access to new technologies (particularly the internet) will be far more significant than separations caused by age, geography, sex or lifestyle. Those who aren't wired will be blocked from an entire universe of information, communication and

But Ms Salzman points to her successes. "I spotted 'wiggers' - white kids who wanted to be black and who started a trend for ultrabaggy clothing - and [on wound healing and the alerted clients to the fact growth of cancerous stimuli." he says. that there would be a revival tumours. Prof Sherratt has The work h of 1970s fashions in the

Next. A Vision of Our Lives in the Future by Marian Soluman and Ira Matathia, important factors in the healing of wounds in the

which claim to influence mood are already on sale in the US and Asia. Personality Puffs, for example, contain a blend of plant extracts which includes St John's Wort and ginkgo biloba to fight depression and improve memory, while Kava Corn Chips claim to aid relax-

But it is not just the elderly who will demand new goods and services parents will be a prime target for marketers with bright ideas. "Today's parents are faced with unique pressures - and conveniences - of raising children in the digital age.

"Expectations are high, resources are plentiful, but time is limited," Ms Salzman says. Anxious parents will not only feed their children "nutraceuticals" to make them healthier and more intelligent, they will also invest in anti-bacterial toys, educational products and organic cotton clothing.

Members-only parks. beaches and theme parks which promise to keep out undesirables will spring up in affluent areas, and trendy loft-living couples will call in teams of "baby proofers" to make their high-tech homes child-friendly.

Labour-saving gadgets and services will become vital as increasingly harried consumers have less time to shop, cook and clean for

"Intelligent refrigerators will track consumption, printing a shopping list on demand or transmitting it electronically to a home delivery service, smart cookers will know how you like your eggs, meal trucks will circle neighbourhoods at dinner time, offering complete meals, and you will get your personal shopper to pick out everything you need from clothing to food," says Ms

But she warns that for an emerging underclass of technological have-nots, the future looks bleak.

Science fiction? Possibly.



SCIENCE MEDICINE

calculator Scalpel, forceps

Simon Hadlington explains how mathematicians and clinicians are working together to shed new light on wound healing and the growth of cancerous tumours

because of the need for rapid

repair following surgery or

In the healthy eye, there is

a constant turnover of

epithelial cells; old cells are

washed away to be replaced

mathematician Philip Maini,

a professor at Oxford

University, Prof Sherratt has

wave front. You can derive

equations to model the speed

how it is affected by external

important insights into how

healing rates can be

improved by the application

of extra EGF to the wound.

"The formula we came up

with has enabled us to make relative weakness.

unintentional wounding.

Working

Modern technology bas given medical scientists unprecedent is an ideal "This is an ideal the application of dented information about for the application of the innermost workings of mathematical modelling," he the human body, including says. "Over the years many of the thousands of scientists have gathered a biochemical and physiologilarge amount of quantitative cal processes that occur in data about the process. tissues which are diseased or very important clinically injured.

Such knowledge is vital in the search for new drugs and theraples. But the enormous complexity of biological systems can make it difficult to pinpoint which molecules and interactions are important and which are

by new ones that migrate not. In this respect, medical inwards from the edges. The process is regulated science is in danger of by a naturally produced chemical called epithelial drowning in a sea of data. But help is at hand from an unlikely quarter: the growth factor, or EGF. After an injury to the epithelium,

mathematician. Over the past 30 years there have been significant advances in a field of mathematics called non-linear dynamics, which can make sense of highly complex systems in which many factors are interacting devised equations that relate precisely what is the rate at which new cells migrate and divide to the

Jonathan Heriot-Watt University in advancing cells represent a Edinburgh, has been working with clinicians and scientists to shed new light of the front's progress and been collaborating with scientists at the Moorfields Eye Hospital in London to help identify the most

Modern technology outer layer of the eye, the a clinically important prediction of the healing rate as a function of the addition "This is an ideal system of the growth factor," says

> Prof Sherratt has also been working with Mark Ferguson, a professor in Manchester University's which we can now use. It is School of Biological Sciences, to create mathematical models of the formation of scar tissue in

When skin is wounded a blood clot forms which hardens to a scab. Beneath the scab is a makeshift protective layer of protein called fibrin. Cells termed fibroblasts migrate into the

model has been verified by experiment the variables can then be altered to see what

"By using one equation for each cell we can model the movement of about 1.000 cells. From this we can obtain a pattern of how the collagen fibres are aligned." says Prof Sherratt. Once the

surround it.

By factoring in all the

predict how an individual

fibroblast moves in relation

to its environment and in

relation to the cells that

effect they have. "From our models we wound site from the discovered that one of the

'We are confident we have a good mathematical model which is realistic in terms of what happens in the body'

surrounding tissue and key aspects is the rate at Michael Baum, professor of break down the fibrin while which the surrounding surgery at University at the same time fibroblasts migrate into the Sherratt, concentration of EGF. "In manufacturing strands of wound; the faster they move new models of the growth professor of mathematics at mathematical terms the collagen - the permanent the greater the degree of and spread of solid tumours. scaffolding which gives skin collagen alignment. If this its strength.

"In normal skin the collagen fibres are randomly oriented, whereas in scar tissue they are more or less The work has given aligned in the same mnortant insights into how direction," says Prof Sherratt. It is this alignment that gives scar tissue its distinctive appearance and is also responsible for its

alignment and cosmetically and structurally better scar." Perumpanani, a physician mathematics, is interested in development. the growth and spread of

research.

known parameters - the rate of migration of the fibroblasts, how fast they interactions are truly crucial to the phenomenon we are studying," he says. produce collagen. how "Take for instance cancer quickly they degrade the There are more than 1,000 fibrin, and so on described proteins which mathematicians have been able to devise equations to

identify which sets of

have been found to have some role in the spread of cancer in the body. This makes its study very confusing. By using a different approach, focusing on the mechanisms, we have been able to describe this somewhat complicated process using a set of six equations.

Dr Perumpanani's group has used mathematical modelling to demonstrate that two particular classes of anti-cancer drug if administered together would be synergistic - their effect than the would be greater than the sum of their parts. "We have been able to predict this without having to wait for the experimental method of

trial and error. Mark Chaplain, mathematician at the University of Dundee in the UK, has been working with

"We are confident that we could be slowed down it have a very good might result in less mathematical model which is realistic in terms of what actually happens in the body," says Dr Chaplain. By Another of Prof Sherratt's manipulating the model, the collaborators is Abbey mathematicians can predict Perumpanani, of Harvard what effect a change in a Medical School in the US. Dr given variable - a growth factor, for example - might who has a PhD in have on the tumour's

Professor Baum believes cancer. He believes that that the application of what mathematics can be an he terms "new mathematics" invaluable tool in medical to clinical oncology could result in a new approach to explosion of cancer and new, effective experimental knowledge and treatments. "I think this is the resulting accumulation absolutely revolutionary."



Trend spotting: futurologist Marian Salzmai

RALPH ATKINS FILE FROM BONN

Having a non-word in your year German politicians are being more careful about what they say as the use

and abuse of the language comes under some generally light-hearted scrutiny

circumspect than usual in their choice of words recently there is a good reason. In the next few weeks an independent jury of linguistic experts. supervised by Horst Schlosser, professor of philology at Frankfurt University, will start selecting the official "non-word" of the year for the 12 months just

The contest is an annual celebration of the worst abuses of the German language. It is a chance to cock-a-snook at politicians or businessmen and show a lighter side of the German establishment - even if the event is carefully organised by a formal committee dominated by academics. But it is also a testament to the malleability of the German language which. despite the word lengths. can show remarkable adaptability.

The "word of the year" 1998 has aiready been awarded. This is a separate contest organised by the Wiesbaden-based German language society which takes a slightly more positive

"non-word" competition. Its aim is to document words which have particularly characterised a year. Top of the list for 1998 was "Rot-Grün" or "red-green which describes the Social Democrat and Green coalition of Gerhard Schröder, the new chancellor. As the German language society says. "red-green" was used first by the previous Christian Democrat-led government as a warning. After September 27's election it became an emblem of success. Now it

is used also as an adjective. In second place was "Viagra", demonstrating the ease with which foreign words or even brand names language. (Helmut Schmidt, the 80-year-old former chancellor, remarked there is "no Viagra against economic

incompetence".) Runners-up in the 1998 "word of the year" contest included "euroland" which now has its own currency; "the new centre" which Mr Schröder claims as his political creed; and "piep piep piep", the inane refrain of Guildo Horn, Germany's

representative in the Eurovision song contest,

which the judges declared "symptomatic" of 1998. But the yet-to-be-chosen 1998 will attract more attention. The contest shows a mischievous side of Germany. There is a sense of irony, or a self-deprecating bewilderment at the complexities German

speakers inflict on

themselves. The "non-word" contest has extra frisson because of its capacity to put noses seriously out of joint. The 1997 winner was "Wohlstandsmüll", or literally. the "rubbish of affluence" used by Helmut Maucher,

chairman of Nestlé, to describe social security scroungers who milked the system. The freshly-honed term was described by the judges as taking "to a new peak the cynical evaluation of people exclusively according to their market

value". Tensions erupted in spectacular fashion five years ago when the non-word of the year jury awarded second place to

"kollektiver Freizeitpark" – or collective leisure park. It was a term used by Helmut Kohl, then chancellor, to describe an industrial society of ever shorter working hours and ever longer holidays - and

ever lower competitiveness. But Mr Kohl was not amused at having his rhetoric publicly honoured in such a manner and made his criticism plain to the language society which then organised the "non-word" contest.

A row erupted over the role of a state-funded institute in organising such a contest. Finally the competition was soun off to the independent committee under the supervision of Professor Schlosser. "We objected to the idea of censorship," he says.

The contest is run on fully democratic principles, with suggestions being made by the general public. As Professor Schlosser says: Germans had bad experiences of government control of the language during the Nazi time and under the East German communists". Which words of 1998

might be selected as the

non-word of last year? There are numerous examples of over-grown words which have become part of the language.

Steuerbernessungs -grundlage", or tax base, has entered frequent usage (at least by politicians) during the recent debate over European tax

harmonisation, but it would probably fail because it is not uniquely associated with the past 12 months. Similarly, the ineptly named Genehmigungs-verfahrens

law to speed up approvals processes) would be excluded because it was a egislative measure introduced by the previous Christian Democratic-led government and, therefore. not sufficiently current. One suggestion, given the rough start experienced by

the new government of Mr Schröder would be to name "red-green" as non-word as well as word of the year. A more serious contender may be "policy mix", the term used by Mr Schröder and Oskar Lafontaine, the finance minister, to describe an economic policy embracing both supply side and demand side measures

- but (just possibly) is an

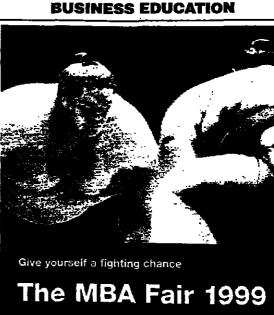
excuse for a fudge. Other ideas received by Professor Schlosser's committee include

"Gegenfinanzierung" – or "counter financing". This is the practice - insisted on by Mr Lafontaine - of balancing tax cuts with revenue raising measures which, some would argue, renders their effect neutral. Worse still is

Frühableben", or "socialiy accepted early death" which Karsten Vilmar, president of the German doctors sociation, warned could be the consequence of government curbs on health

spending. Another proposal is "Seniorsitter", the term used to describe care for the elderly which, according to Professor Schlosser, suggests that looking after old people is comparable to baby sitting. The dark horse is

"euroland". Its chances would seem low given Germany's lust for European integration and its position as runner up in the word of the year contest. But given the reluctance of ordinary Germans to give up the D-Mark, its adoption as non-word of the year, 1998, would really be an act of



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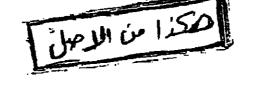
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Peter Brook's production of Don Giovanni, first seen at last summer's Aix-en-Provence estival, comes to the Monnale on Thursday, with Daniel Harding once again on the podium. As at Aix there are two casts, including Peter Mattei as Giovanni and

STRATFORD-UPON-AVON The Royal Shakespeare Company

starts the New Year with a new production of The Winter's Tale opening on Wednesday at the Royal Shakespeare Theatre, Gregory Doran directs, with Antony Sher staming as Leonites and Alexandra Gibreath as Hermione (right).

NEW YORK Among the most remarkable achievements of George



Balanchine, the greatest 20thcentury choreographer, is that he put many ballets on without scenery, simply against a blue backdrop (the sky) and in the simplest dance kit (lectards, tights, skirts) all in black and white. These include such Stravinsky masterpieces as Agon

and Symphony in Three Movements; also the overwhelming Hindemith The Four Temperaments, As part of its 50th-anniversary celebrations, New York City Ballet (directed by Balanchine until his death in 1983) presents, from Tuesday, his Black and White repertory.

MINNEAPOLIS

THE ARTS

Christopher Rouse's latest work is a song cycle for soprano, entitled *Kabir Padavali*. It will be premiered on Wednesday by Dawn Upshaw, with the Minnesota Orchestra conducted by David Zinman. There are further performances on Friday and Saturday.

PARIS

The Chamber Orchestra of Europe begins the year with visits to Paris, Cologne and Berlin under the direction of Myung-When Chung. The first of four Paris concerts, on Wednesday, is a chamber music evening at the Cité de la Musique.

Cecilia Bartoli stars in a concert performance of Handel's Rinaldo at the Théatre des

It is repeated at the Concertgebouw in Amsterdam on Sunday, and in Bermingham and Vienna next week. Christopher Hogwood conducts the Academy of Ancient Music.

LONDON

This year sees the centenary of Noel Coward's birth. Celebrations start at the King's Head, Islington, with his daring late play, A Song at Twilight daring because its subject is "outing" and its protagonist (played here by Corin Redgrave) bears strong resemblance to Coward himself (who played the

ROME

The Accademia Nazionale di Santa Cecilia starts the year with



Bernstein's opera Candide on Thursday, Saturday and Sunday at the Auditorio Pio. Jeffrey Tate conducts a cast that is headed by June Anderson, Jerry Hadiey, Kurt Oflmann and Felicity Palmer.

LAS PALMAS

Carlos Kleiber, widely regarded as the world's greatest living conductor (left), comes out of self-imposed hibemation this week for two concerts in the Canary Islands. The first is in Las Palmas on Thursday and the second at Santa Cruz on Saturday. Kleiber, 68, will conduct the Bavarian Radio Symphony Orchestra in a programme expected to include Beethoven's Seventh Symphony. These two concerts represent his first public engagements for two

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The Kobal Collection

Director who made up for lost time in advance

Nigel Andrews welcomes the National Film Theatre's retrospective of Rainer Wemer Fassbinder's dazzling work Stephen Spender once bardically it a social-critical edge, a style eraman did the morning shoot. love of lower-depths subjects was

do film critics. Sometimes we do with les Renoirs (or substitutes)

Film Theatre's full-scale retro- a one-man, walking gesamkunspective devoted to this extraor- stwerk. dinary German filmmaker, launched last week, gives the fan ample scope. It should make new were scarcely born when the wunderkind burned out after a life famously fuelled by drugs, drink and promiscuous bisexual-

The 36 year-old had made up in advance for lost time. His bestknown movies, including The Bitter Tears Of Petra Von Kant, Fear Eats The Soul, The Marriage Of Maria Braun and Querelle, were the tip of a large, mind-crunching iceberg. He made nearly 50 films, sometimes four in a year, and the good ones were dazzling. They

mused: "I think continually of poised between faux-naif and (So much for auteurism when the never sentimental or preachy. He Rousseau painting. Fassbinder those who were truly great." So farouche - only French words auteur isn't functioning.) seem adequate to sum up this it to call up invidious comparisons with the non-great: there is intelligence in creating tension as if he needed eight black cofrick self-lacerating lesbians. He nothing like crying "Où sont les between filmic and theatrical fees. He encountered instead his didn't tell us to love them or to wanted. The Bitter Tears Of Petra like human still-lifes, sphins-like mother. She read the riot act. hate them. He just brought them Von Kant is an artfully "stagey" and decoratively defiant. We

It wasn't enough to call Fass-Fassbinder musings come in ceived, wrote, planned, directed both categories and the National and often acted in his own films,

As with any prolific artist, bad works swilled about among the good. Few want to remember fans too. Fassbinder died so though this month and next they young that today's teenagers can re-experience, his daffy take on American southern Gothic, Whitey; or the tiresome puzzlepicture Chinese Roulette; or the incoherently autobiographical Year Of Thirteen Moons, with its transvestite hero working out Fassbinder's grief after the death

of a longtime male lover. That was the only time I met the director, though I never forgot it. I witnessed a movie in the making and a movie career almost in the un-making. During the day of filming I attended, Fassbinder didn't appear until rewrote movie melodrama, giving lunchtime. An actor and the cam-

Fassbinder sheepishly took it in. ineradicably to life.

d'aujourd'hui. At other times we binder a German Warbol, as Then when Mutti moved away, I He knew what made a great high-theatrical lesbians playing do it to bask in the miracle, pres- some did, or a pop-art primitive made the mistake of approaching image. Fear Eats The Soul, about out their agony against a giant of Fassbinder's storytelling and the Don José, has a relatively ent or remembered, of what bemused by his own talent. He him myself, to ask if I could sit in the love leading to social ostra- emblematic wall-hanging. Like- dialogue, that the very stiffness

> He made movies about whores, pimps, drug addicts, crooks, homosexuals and lesbians. He didn't tell us to love them or hate them. He just brought them ineradicably to life

on the filming and later talk to cism between a young African him. He answered with silence, plus a look of glazed, hostile indifference as if I was something interrupting his view.

Abandoning RWF, I spent the day taking the star Volker Speng-- a traffic-stopping vision in between-takes ice-creams. I had soled myself, are better experi- to this oddly matched but honestenced straight from the screen. Fassbinder's cinema was, and still is, astonishingly fresh. His

worker and a German woman old enough to be his grandmother. had an unforgettable scene in a Munich outdoor café where the bright orange chairs and tables in the green park had an Henri Rousseau vividness. The mixture lipstick and high heels - for of gemütlichkeit - German cosiness - and jungle colours perclearly picked the wrong movie fectly suited Fassbinder's satirioccasion. The right movies, I con- cal pointing of society's attitude

as-nature black/white romance. I thought be had designed this scene. But a year or two later I

passed by the actual Munich café. seeming simplicity of the perfor-The chairs and tables were bright mances gave Fassbinder freedom orange; the place did look like a made movies about whores, had simply, like a great photogra-When the bleary director pimps, drug addicts, crooks, pher, noticed and chosen the right reality. He could also stylise when he

movie about stagey people, two know them so well, however, not Genet story in a painted set aglow with expressionism, while phore of the damned. Effi Bricst is a deliberate, literary movie of the Fontanne novel. postmodernly wrapping its story in voiceover narrative and livingtableau mise en scène.

That Fassbinder's best films all ended up real, regardless of their artifices, was the marvel. Like nearly every great director, at least outside Hollywood, he used Hanna Schygulla, Armin Mueller-Stahl, Margit Carstensen, Irm Hermann, himself...He probed their personae to the point where the masks cracked, where the inner personality shed its essence and luminescence over the

With the performances too. though, he introduced art whenever nature was not quite enough. The nakedness and

to play with mischievous, enriching obliquities. In The Merchant Of Four Seasons, his first masterwork, he keeps handing his characters social masks. In a film about hypocrisy they stand about least through the layered ironies of th

Other film-makers, including gay ones, have followed the Fassbinder route to a cinema combining realism, primitivism and highly wrought social ballet. In America Mark Rappoport, Hal Hartley and Todd Haynes (Safe. Velvet Goldmine) all delight in pofaced or faux-naif storytelling laced with renegade stylisations. the same players over and over. In Spain, Pedro Almodovar has for years been a one-man Fassbinder tradition. And the outing of social hypocrisy and moral intolerance in films by directors as diverse (but also as latently "camp") as Lars Von Trier and Mike Leigh owes much to Fass binder. The National Film Theatre season is a priceless chance to meet a film-maker who is himself, the passing years confirm,

OPERA

Take your pick of Carmens

Opera North's new Carmen in Leeds, West Yorkshire, is a flawed but interesting effort. Is Cormen a sophisticated opéracomique, a gritty drama of everyday low-life, or a brilliant theatrical evening of famous tunes? Phyllida Lloyd, Opera North's producer, has done her best to pack all three into one evening.

To judge from the programme it is the gritty drama that interests Lloyd most. Fortunately, she resists using the pop music analogy to turn Carmen into Gypsy Spice, but the opera is updated. employing Keith and Emma Warner's recent translation.

Instead of Bizet's quaint band of gypsies we get some very nasty drug smugglers, who have learned their stage manners from the Quentin Tarantino book of etiquette. Zuniga is murdered within seconds of uttering his last line, Don José has his forehead cut with a knife, and even a child gets knocked about. No wonder Micaela, a decent suburban girl, sung with a tremulous fast vibrato by Susannah Glanville, feels so out of place.

Carmen the slick stage musical turns up for some of the big setpieces. The Toreador's Song is pure Bizet goes to Broadway. Mark Stone gamely jumps on and off tables, rips open his shirt and gyrates his hips while somehow singing the piece with conscientious musical values.

After all this one might expect Carmen and Don José to go at their roles hammer and tongs. but this is where Carmen, the subtler French opéra-comique, comes in. Antoni Garfield Henry, light voice for the role, but he His Carmen also has fresh ideas. from a nicely underplayed first entrance to a final scene where she goes down fighting. With more experience, the young American mezzo Ruby Philogene

will be just right for the role. Andras Ligeti conducts Bizet's music with a mixture of dogma and theatrical good sense. This is a schizophrenic Carmen - I still don't know why the entire opera is set in a disused gasometer but by the end it succeeds in drawing its ideas together. Carmen and Don José are vulnerable young people caught up in a world of violence, and very moving their fate is, too.

Richard Fairman

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INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION Rliksmuseum Tel: 31-20-673 2121 The Festival of Lithography: celebration of the 200th anniversary of the discovery of lithography. The exhibition consists of works from the collection, including lithographs by Toulouse-Lautrec, works by Cezanne, Manet, and Dutch artists including Van Gogh; to Jan 10

CHICAGO EXHIBITION

Art Institute Of Chicago Tel: 1-312-443 3600 www.artic.edu tary Cassatt: Modem Woman. 25 paintings, drawings and prints by the only American invited to exhibit in the Impressionist exhibitions in Paris: to Jan 10

COLOGNE OPERA Oper der Stadt Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 8

Tel: 49-221-221 8240

COPENHAGEN EXHIBITION Louisiana Museum of Modern Art, Humiebaek

Tel: 45-4919 0719 www.louisiana.dk Joan Miró: major retrospective comprising 140 paintings. rings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

EDINBURGH

EXHIBITION National Gallery of Scotland Tel: 44-131-624 6200 Turner Watercolours: shown every January for 90 years, this magnificent selection of 38 watercolours was bequeathed by Victorian collector Henry Vaughan in 1900; to Jan 31

HAMBURG EXHIBITION

Kunsthalle Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing

on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to Jan 10

HOUSTON EXHIBITION Museum of Fine Arts, Houston

Tel: 1-713-639 7750 www.mfah.org A Grand Design: The Art of the Victoria and Albert Museum. North American tour of selected objects from the V&A's collection. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood, presented in sections which address changes in the institution's collecting

LONDON EXHIBITION

policy; to Jan 10

Victoria and Albert Museum Tel: 44-171-938 8500 Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition, which arrives in London after touring in Japan, marks the centenary of Beardsley's tragically early death, aged 25; to Jan 10

THEATRE

Albery Tel: 44-171-876 1115 Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy moves from the Almeida Theatre to the

West End. Comic duo Sean Foley and Harnish McCoil play the title roles; Jan 4, 5, 6, 7, 8, 9

National Theatre Tel: 44-171-928 2252 Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and imogen Stubbs; Lyttleton Theatre; Jan 4, 8, 9, 11

NEW YORK EXHIBITIONS

Guggenheim Museum SoHo Tel: 1-212-423 3500 www.guggenheim.org Premises: Invested Spaces in Visual Arts, Architecture & Design from France, 1958-1998. Exploration of the different ways in which artists have engaged with space. Display ranges across installation, film, video, photography and architecture. Includes works by Le Corbusie and Louise Bourgeois; to Jan 10

Metropolitan Museum of Art Tel: 1-212-879 5500 www.metmuseum.org The Nature of Islamic Omament, Part II: Vegetal Patterns. Second

in a four-part series on Islamic ornament from the 9th to the 18th century. Includes rare brocades and carpets; to

Pierpont Morgan Library Tel: 1-212-685 0008 Master Drawings from The State Hermitage Museum, St Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings panels, linen shrouds and plaster

dating from the 15th to the 20th century, some of which have never before been exhibited outside Russia. Includes works by Rembrandt and Dürer, with particular emphasis on the modernists Matisse and Pica to Jan 8

OPERA Metropolitan Opera, Lincoln Center

Tel: 1-212-362 6000 www.metopera.org Die Fledermaus: by J. Strauss Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Jan 6, 9

EXHIBITIONS Grand Palais Tel: 33-1-4413 1730 Gustave Moreau: more than

PARIS

140 works by the Symbolist painter, held in high esteem by his literary contemporaries. Includes studies and drawings as well as oils, many of them depictions of historical and mythical subjects; to Jan 4 Lorenzo Lotto: Rediscovered Master of the Renaissance. 50 paintings, many of them on loan from churches and museums in Italy: to Jan 11

Musée du Louvre Tel: 33-1-4020 5151 www.louvre.lr Portraits from Roman Egypt: touring exhibition of mummy portraits from the British Museum. Painted on wooden masks, they were created during the first three centuries of Roman rule in Egypt; to Jan 4

PRAGUE DANCE

beyond price.

National Theatre of Prague Tel: 420-2-2108 0131 www.anet.cz/nd The Nutcracker: by Tchaikovsky, in a staging by Russian choreographer Jurij Grigorovic, with sets and costumes by Simon Virsaladze: Jan 5

THEATRE National Theatre of Prague Tel: 420-2-2108 0131 www.anet.cz/nd The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan

ROTTERDAM **EXHIBITION**

Kunsthal

Raimont; Jan 11

Tel: 31-10-440 0300 Up to the bare bones: Human remains in museums. The first to address this phenomenon directly, this exhibition presents exhibits from medical, sacral, ethnographical and archaeological collections; to Jan

SAN FRANCISCO CONCERTS

Davies Symphony Hall Tel: 1-415-864 6000 www.sfsymphony.org New York Philharmonic: conducted by Kurt Masur in Shostakovich: Jan 10 New York Philharmonic: conducted by Kurt Masur in works by R. Strauss and Tchaikovsky; Jan 11

WASHINGTON **OPERA**

Washington Opera, Kennedy Center Tel: 1-202-295 2400 www.dc-opera.org Die Entführung aus dem Serall: by Mozart. LA. Opera production by Michael Hampe, conducted here by Heinz Fricke; Eisenhower Theater, Jan 7, 9, 11

● WORLD SERVICE

■ TV AND RADIO

BBC World Service radio for Europe can be received in stem Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

 CNN International Monday to Friday, GMT:

06,30; Moneyline with Lou Dobbs 13.30: Business Asia 19.30: World Business Today 22.00: World Business Today

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20;

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

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PHILIP STEPHENS

Conspicuous absence

Britain must assess the economic costs and benefits of joining the euro against the political price of staying out

the spurious certainty of those who claim economics

We can speculate now that

replacing the divine right of

permanent deflationary bias

to Europe's economies. Or

we can suppose that Wim

his colleagues are smart

Duisenberg, president of the

European Central Bank, and

enough to understand that

ultimately on the consent of

tell us that a one-size-fits-all

regions. Optimists will retort

that the new pressures for

structural reform in product

and labour markets promise

competitiveness and growth.

The truth is it will be a

a permanent addition to

decade at least before we

know in any serious sense

success. And even then the

heavily on a guestimate of

what otherwise might have

economic costs and benefits

of joining has to be weighed

against the unquantifiable

So what is demanded of

would be the same if he

Mr Blair is a leap of faith. It

chose to stay out. Those who

been. As for Britain, any

balance sheet of the

risks of staying out.

hold an independent

monetary policy to be

the havoc wrought by

indispensible to economic

success conveniently forget

sterling during the post-war

decades. What would the

pound buy in Germany in

as much as it would now.

economics are indivisible.

The politics and the

There will be no magic

1960? More than four times

assessment will depend

whether the euro is a

the people. Pessimists can

monetary policy is a recipe

for permanent slump in

Europe's more depre

the ECB's authority rests

kings with that of central

bankers will impose a

as their profession, this

enterprise precludes a

definitive judgment.

The event is no less momentous for the anticipation. Instead, the reality of the euro reminds us of the immense scale of the endeavour. It remakes the economic and the political contours of the European continent. In so doing, this unique enterprise presents Britain with a dilemma as acute as any that the nation has faced during a long post-war struggle to extricate its

future from its past. It's a pity that Gordon Brown did not attend last week's christening in Brussels. But Britain's uncomfortable in the role of onlooker. Perhaps he would have been teased by Dominique Strauss-Kahn, France's mischievous finance minister. And he certainly would have been vexed by Oskar Lafontaine's restatement of German ambitions to add economic to monetary union.

Mr Brown should have put aside his pride. The sight of a diplomat taking the chancellor's place in the British chair served as an awkward reminder of another missed beginning. It recalled the decision of Anthony Eden's government to despatch an official rather than a minister to the Messina conference where Britain's partners were making Europe's future. Hard to believe now that Rab Butler, an otherwise intelligent chancellor, dismissed this seminal event as an irrelevant "archaeological excavation"

in some small Sicilian town. Now as then the choice for Britain is huge and inescapable. Mr Blair knows it. His studied public reticence on the subject of Britain's participation cannot conceal the irrepressible logic of his

broader approach to Europe. He has decided that Britain must be a player on that continent. He cannot kid himself that is possible outside the euro.

So it is when not if. As one prime ministerial aide said resterday, the government has declared its support in few weeks it will publisb what it has called a national changeover plan. Here the Treasury will spell out the nuts and bolts of swapping pounds for euros. Money may be allocated to adapt Whitehall's computers.

It is not enough. The ssure of events demands of Mr Blair a more explicit timeframe. Will it be the three years that the eover plan postulates as the shortest practicable? Five years? Maybe 10? We learned from Messina that it makes a crucial difference. How long might it be before France is led again by a government which, like De Gaulle's, seeks to prolong the discomfort of a Britain

on the outside looking in? Just as important as the when is the how. Mr Blair's position is that the government will prepare and then decide. That decision will be taken in something called the national economic interest. To that end Mr Brown has enunciated five economic "tests"

This is the politics of convenience. Mr Brown's tests are a flimsily-drawn charade. The Treasury can declare them met or whenever it chooses. Ambiguity was always the name of this particular game. Of course, there may well be a good time and a bad time to merge Britain's monetary policy with that of the euro-11. Any sensible government would keep an eye on the cycle. But for all

invert his stated policy: to decide and then prepare. Perhaps he has already done so. But this demands an admission - open and honest - that in the broadest sense Mesers Strauss-Kahn and Lafontaine are right. The euro is a powerful impulse to further economic

right. Mr Blair has instead to

What is important politically is not this obvious fact but the nature of the closer cooperation which will follow. Those who cherish the sovereign's head on the currency predict the instant destruction of the nation state. But they uphold a (very recent) symbol of nationhood England, Scotland and Wales were proud nations long before the monach first

No, the real argument is about the structure of integration. For the sceptics the word is synonymous with centralisation. A single currency requires a single state, a single state a single tax policy. Yet listen carefully and there is no more enthusiasm in Bonn and Paris than in London for that particular blueprint. What's being asked for in those capitals (and often sensibly so) is tighter policy

appeared on the pound note

in 1946.

When Mr Lafontaine speaks of harmonising taxes he is pursuing Germany's national interest. When Mr Strauss-Kahn calls for a bigger role for the Euro-11 council of finance ministers he is speaking for France. Both men recognise that the euro greatly increases their interdependency. Hence the pact to set the parameters of fiscal policy. Yet neither politician intends to sacrifice national to common interests. Quite the reverse.

co-ordination between

advances the former. Here lies the essence of the European bargain which Mr Blair must re-explain and the British people must again confront. Like it or not, decisions taken on the European continent shape Britain's security and prosperity. Is the national interest best pursued at the centre or from the margins? To my mind this perennial

question answers itself.

They want to shape the

latter in a way which

LETTERS TO THE EDITOR

Directors remain firmly opposed | Paris system to the UK joining the euro

From Mr Tim Melville-Ross. In the Financial Times on tion of Small Businesses, is single currency as regularly the business view of the euro ("Business and unions There are powerful warn on euro delay") and economic and political gave the impression that the main business organisations which seldom receive an are not only in favour of the UK joining the euro but also are asking for the govern-

May I point out that this directors in the UK - facilitated if you were to

and euroff!

From Lord Cobbold.
Sir, On behalf of all those

who believe in the future of

the European continent and

who marvel at the progress

made over the past 50 years,

may I, through your

columns, offer a public

A currency union embrac

ing 11 nations has never

been tried before. It is not

But if successful, it offers

immense opportunity and

economic benefit to the

It could become a blue-

print for other national

groupings across the world.

The euro puts an end to

competitive currency devalu-

ation - a scourge that has

The euro creates poten-

tially the largest capital

market in the world, encour-

aging investment and the

Welcome euro - euroff!

creation of employment.

Godspeed!

Lord Cobbold,

SG8 6PY, UK

Knehworth House, Hertfordshire

been the cause of war.

welcome to the euro?

without risk.

peoples of Europe.

sations, such as the Federa- against the UK joining the New Year's Eve, you firmly opposed to the UK commented once again on joining the euro for the foreseeable future.

reasons for this position, airing in the Financial Times.

Sir Clive Thompson, presi ment to set a membership dent of the Confederation of British Industry, has called for a more grown-up debate business organisation - about the single currency, which represents 47,000 and this would be greatly

as you present the argument And on the matter of set-

ting a membership date, I suggest that this is a little difficult so far ahead of the referendum which will decide whether or not we

Tim Melville-Ross director-general, 116 Pall Mall, together with other organi- present the arguments SW1Y 5ED, UK

Under orders | Smaller companies at mercy of stiffer interest charges

From Mr Martin Simons Sir, David Blackwell's article ("Rethink on small companies urged", December 30) on KPMG's concern about a 10-year low in flotation of small companies is timely. The decline in Mittelstand companies in the UK is a nartial consequence of relentless pressure on smaller suppliers by indus-

trial and retail giants. Under the guise of supply chain management, extended credit is syphoned from suppliers who consequently have emasculated profits and cash flows.

stiffer interest rates than large groups

The City should not countenance profitability expressed in terms of net operating assets which are reduced by delayed payment. And calculation of asset gearing without regard to the level of trade is foolish.

The Bank of England should use its influence to ensure that large companies pay equitably.

Martin Simons, 24 Granard Avenue, London SW15 6HJ. UK Medium and smaller-sized

Satisfying the most basic needs

From Mr M. Wilson.

Labour MPs appear to - such as food and shelter commit more financial indiscretions, while their Tory active in the bedchamber caused me some moments of perplexity.

The penny dropped when I Market Weighton, recalled Maslow's "hier- York archy of needs". Of course! Y043 3JE, UK

Sexual needs become para-Sir, The suggestion that mount only when the basics (wealth) - have been satisfied. QED?

> Michael J.C. Wilson. 'Bridleways'. 42 Spring Roads.

for repo clearance 'overlooked'

WANCIAL HIME

taking a lead

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अन्यस्थानकात्राक्षात्र्यः

From Mr Jean Corren Billiard.

Sir. In your article on the London Clearing House ("LCH to offer clearing service for European repos" December 22), you assert that RepoClear, the proposed repo clearing facility, is the first in Europe.

The article has apparently overlooked the existence of Clearnet, the Paris Bourse's cash and repo clearing aystem. My company, Prominnofi, a European government securities broker, has been a Clearnet customer since its

The Clearnet facility was launched on November 6 last year ("French house to expand", FT, December 2) and offers a clearing service in French government securities. It plans to extend this service to all euro-zone government securities in due

The project has been incouraged by a group of European banks with the aim of reducing counterpart risk and, in the process. reducing the amount of capital set aside against the possibility of default.

It also has the appeal of offering members the facility of "netting out" capital placed with Clearnet on their cash or repo transactions against existing margin/deposit capital with Clearnet.

The distinction between RepoClear and Clearnet is that Clearnet is operational and is used by the French government debt primary dealers, whereas RepoClear remains a project in

Jean Carren Billiard, president du directoire. Prominnoft, 43-45 rue Taithout,

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW GEORGE SOROS

To avert the next crisis

The IMF should be transformed into an international central bank so that it can act to prevent financial crises as well as be the lender of last resort to distressed countries

o will it be business busts can be prevented only kets were unwilling to do so. as usual in 1999? The by moderating the booms recent dramatic vola-tility in financial markets is but a distant memory. The miseries of Russians and Indonesians seem far away. But the global financial system still has fundamental flaws. Unless these problems are addressed and we learn the lessons of the past year, the

system is liable to collapse. Booms and busts are endemic in financial markets. Instead of moving like a pendulum, markets can move like a wrecking ball, knocking over one economy after another. The swings cannot be avoided altogether, but they need to be brought under control. International financial institutions, nobably the International Monetary Fund and the World Bank, were designed for a world devoid of large-scale capital flows. In the recent crisis, the IMF proved part of the problem

rather than the solution. The primary mission of the LMF is to preserve the international financial systhat a debtor country will be able to meet its international obligations, if not right away, then within the foreseeable future. The conditions it imposes on the debtor country include punitively high interest rates, which serve the dual purpose of stabilising exchange rates and creating a trade surplus by precipitating a recession. Both developments indirectly benefit lenders because they facilitate the repayment of debts. This method of operation has given rise to what is now recognized as a moral hazard. In case of trouble,

enders and borrowers. There is another asymmetry in the way the IMF currently operates. It can intervene only in times of crisis; it has no authority to prevent a crisis from developing. Yet experience shows capital when financial mar-

enders can count on the

IMF to bail them out; this

sloppy lending practices.

better described as an asym-

that precede them. These two asymmetries,

taken together, explain why tinue to have access to the the IMF has become part of the problem. In the most recent crisis, the IMF imposed punitive interest rates and the countries concerned were plunged into deep recession. But when the crisis threatened the US the Federal Reserve lowered interest rates and the US economy escaped unscathed. The IMF is now under

severe attack. There are voices calling for its abolition. Others want to cripple it by imposing all kinds of sion scheme, the internaconditions. I believe these tional financial system attacks are misconceived. If global financial markets are inherently unstable we need a stronger regulatory framework rather than the dismantling of existing institu-

currently with one important difference: in a crisis the IMF would impose conditions not only on the country concerned but also on the creditors. By putting would-be creditors on notice, the IMF would prevent excessive capital inflows from developing. If it still became necessary to impose a moratorium or a compulsory debt-to-equity converwould not be disrupted, because it would be an isolated case. The threat of contagion, inherent in the current arrangements, would be

cannot or will not meet

The new IMF would eliminate the imbalance between prevention and cure. The emphasis would be on prevention

tions. To be specific, we need to convert the IMF into act as lender of last resort something resembling an would radically change the international central bank. I do not have in mind an institution like the Federal Reserve or the European Central Bank, I am talking about empowering the IMF to act as lender of last resort with regard to a select group of countries that are eager to obtain such protection. The countries concerned would have to follow sound macroeconomic policies; have a sound banking system, with appropriate supervision; provide adequate information both to the IMF and to the has supposedly encouraged markets; maintain flexible exchange rates with appro-Actually, the moral hazard is priate measures for the control of excessive capital metry in the treatment of flows; have proper corporate governance and bankruptcy laws; respect certain basic human rights and abide by recent G7 communique, the rule of law. In return, the IMF would stand by as a lender of last resort and pro-

Empowering the IMF to mission of the IMF and the way it operates. It would eliminate the current imbal-

ance in favor of creditors. The new arrangement would also eliminate the imbalance between prevention and cure. The emphasis would be on prevention, where it properly belongs. Booms and busts would not be banished altogether; but the IMF, in its new incarnation, could also act as a kind of international central bank, regulating the environment for international capital flows in order to - should address the issue: obviate the need to intervene as lender of last resort.

This is not an utopian and should be implemented right now. It is implicit in a Which proposed preventative actions and a contingency fund, and in the speeches of of the Open Society institute vide an adequate supply of Bill Clinton, the US presi- and author of The Crisis of dent, Gordon Brown, the UK Global Capitalism

Those countries which and other statesmen. I would not like to pretend these conditions would conthat it would be easy to those which are available

Chancellor of the Exchequer.

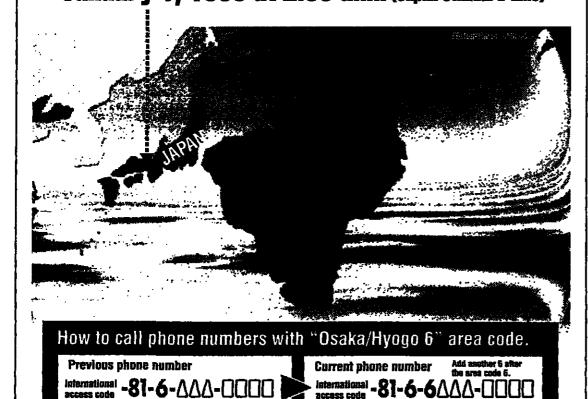
establish the rules by which IMF on terms similar to a reconstituted IMF would operate. An international regulator of credit and money supply would have to consider not only the countries at the periphery but also those at the centre of the global capitalist system. It would be improper for either the US Federal Reserve or the European Central Bank to allow its autonomy to be infringed by an international body, but both institutions would be represented on the governing body of the reconstituted IMF, and in that context, they would be better able to coordinate their global responsibilities. Most global financial cri-

> ses have been precipitated by a rise in interest rates. That was true in 1929, in 1982, and again in 1992 when the reunification of Germany destroyed the European Exchange Rate Mechanism. It was not the case in 1997-8, but it may welf be the case in the next crisis. The ability to inject or restrict liquidity not only at the centre but at the periphery would open up policy options not now available. Something resembling an international central bank could provide the cornerstone of the financial architecture around which a new Bretton Woods conference could be organized. in the US, a task force of

the Council on Foreign Relations and others are studying the subject; there ought to be similar initiatives in Europe. But it is even more important that the countries that could benefit from a lender of last resort - in Southeast Asia, Latin America and the rest of the world After all, if the new architecture is to correct the saymetry between centre and ideal but an idea that could periphery, countries at the periphery should have animportant say in its design.

> George Soros is chairman of Soros Fund Management and

Telephone Numbers with "Osaka/Hyogo 6" area code were changed. January 1, 1999 at 2:00 a.m. (Japan Standard Time)



*Dialing without the extra "6" connects you to a wrong number. Please revise following items immediately.

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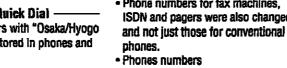
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Printed Material Phone numbers with "Osaka/Hyogo 6" area code listed on business cards, envelopes, advertisements and catalogues

Phone numbers with "Osaka/Hyogo 6"

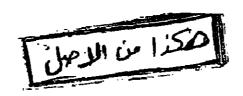
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area code were changed. Phone numbers for fax machines. ISDN and pagers were also changed



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> preserve national and personal freedoms. companies and governments, it will also create hard disciplines. They must be accepted cheerfully to make Emu work. And from today, there is no choice. It must work.

FINANCIAL TIMES

Number Cne Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday January 4 1999

Taking a lead from the euro

The birth of the euro, which starts trading on the foreign exchange markets today, is an important event in European history. It is the culmination of four decades of effort to bring the nations of Europe together after the devastation of two world wars. And it also points forward: to the immediate need for closer co-operation between nation states and perhaps, more controversially, to a federation with extensive central powers.

The political capital which European governments have invested in economic and monetary union in recent years has confounded sceptics. Even many of Emu's supporters refused to believe that 11 continental powers would be ready to merge their currencies by January 1 1999. There is every prospect that this impressive determination to get the process started will be carried forward to make it

The recent swing from conservative to centre-left governments in Europe may, it is true, lead to some uncomfortable debates about the relationship between fiscal and monetary policy and social objectives within the eurozone. But there is no evidence that the new left-leaning governments question the fundamental desirability of Emu or the broad direction of its development.

That must inevitably lead to closer political integration, with profound consequences for the European Union. There are two sets of reasons for this, one practical and the other historical.

First, on a practical level, it is obvious that the operations of the new European Central Bank must be matched by closer co-operation over national fiscal policies, as was agreed in the Maastricht treaty of 1991. The extent to which the Euro-11 committee for euro-zone finance ministers will become a new centre of economic power remains uncertain.

But in considering, for example, the common problem of unemployment, ministers are bound to be interested in the interaction of their fiscal policies, the interest rates set by the ECB, and movements of the euro exchange rate. So there is little doubt that a common monetary regime will exert a strong gravitational force over all macro-economic decision-making.

Holding fast to four principles

Second, many in Europe will see this centralising tendency, from an historical perspective, as desirable as well as inevitable. As Sir Leon Brittan, the EU trade commissioner, has pointed out: "The union's purpose has been to cement the peoples of Europe together in a way that would make war unthinkable and impossible. That is a fundamentally political role, even if the tools used by the union are primarily economic." The first moves towards a common currency were, indeed, proposed almost 30 years ago at The Hague, to help in binding the original six EEC nations together.

Even from a purely economic perspective, the new cur-rency represents much more than a convenience to facilitate trade within the EU, as some critics (particularly in Britain) are apt to suggest. The euro is founded on the economic ideals, shared by Britain's Labour government, of long-term monetary and fiscal stability. The vision of Europe as a zone of low inflation and sound government finances is a worthy one. And as a result of strenuous efforts in recent years, it looks attainable, despite prob lems of unemployment and high labour costs. Euro-zone inflation fell to only about 1 per cent in 1998, and it is unlikely to rise much this year. Meanwhile, government budget deficits represent about 2.5 per cent of the zone's gross domestic product, half the average figure in 1996.

More broadly, the euro creates an integrated economic bloc containing 290m people and accounting for about a fifth of world GDP. It has a larger population than the US and about the same share of world trade. It seems inevitable that, over time, political structures will evolve to match such economic power, even though the common defence and foreign policies envisaged in the Maastricht treaty have been slow in getting off the ground.

Nobody can be sure how fast integration will be, but the direction is clear. The euro represents a big stride along this path, and all EU members need to consider carefully where it is leading. In doing so, they must hold fast to four principles: the need for strict limits and a better definition of the powers of the centre; better transparency and democratic accountability of the EU institutions; preservation of a liberal and open economic regime; and overall, a strong and explicit regard for individual liber-

The broad aim should be to limit the "federal" powers of the union to things that cannot be better done by nation states. The EU's principle of subsidiarity is supposed to achieve this. But its wording is much vaguer, for example. than that in the US constitution. This was intended to limit the powers of the federal government to those matters delegated by the states, but since the civil war it has not always been successful in doing so. Even without clearer wording, the EU needs stronger means for testing whether proposed EU legislation breaches the principle.

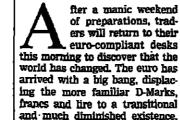
Economic openness, hard discipline

The European parliament, which now assumes an important role in scrutinising the ECB, might do more as a check on the commission and the council of ministers, but greater openness, particularly in the council, is also needed. Better scrutiny by national parliaments, perhaps through a joint committee, would help. There have been many other proposals, including a second chamber drawn from national parliaments, elected commissioners, a standing council of ministers, and the regular referral of constitutional matters to the European Court of Justice. But first, EU governments must recognise the need to limit the powers of the centre and to strengthen democracy and openness in exercising them.

Even more important is a broad agreement on the use of those powers. The intrusive, corporatist tendency of the 1980s proved widely unpopular, and the volume of such legislation has been much reduced. Even so, some in Europe would still like to create harmonised laws for everything that moves, from water purity to taxes. They must be resisted. So must those who want to institutionalise throughout Europe the excessive regulations which threaten competitiveness in their own economies. The euro, by increasing price transparency and competition throughout the zone, will encourage such demands. They

must be resisted all the more. Better political institutions in the EU are desirable, both to smooth the admission of new members and to make the union strong and outward looking. But they must not be used to frustrate the effects of an open trading economy, which will both improve general prosperity and help to

The euro will reinforce economic openness; but for Jean-Marte Messier may have



ing the more familiar D-Marks, francs and lire to a transitional and much diminished existence, mainly in the form of hard cash. In financial centres, the euro will be the sole currency of the 11 countries which launched this unique experiment on January 1. The € symbol will be flashing on computer screens, showing new and unfamiliar exchange rates,

bond and equity prices. The euro will be larger than its constituent parts. It will be the rency after the dollar. Europe's bond and equity markets, previously fragmented on national lines, will also become more liquid and integrated. In terms of size, the euro-zone and the US are evenly matched, each with a 20 per cent share of world economic output, followed some way behind by Japan. The world will

become more tripolar. But this may prove to be only a starting point. Europe's economic and monetary union is far from complete. While the introduction of the euro is an important historic achievement, the task of making the euro work has yet to

start in earnest. Emu is a game of double or quits. If accompanied by prudent policies and economic reforms, it could help secure sound and stable growth and reduce Europe's chronic unemployment. But if Emu fails, the whole process of European integration may be at risk. To make integration work, Europe has to be prepared for far-reaching changes.
• Structural reform. In theory,

the adoption of the euro deprives its members of two traditional tools of macroeconomic policy: the exchange rate and the interest rate. In practice, these instruments ceased to be relevant when most members of Emu tied their currencies to the D-Mark.

Emu also commits governments to strict budget guidelines through a stability and growth pact which places ceilings on fiscal deficits. Not a single macroeconomic weapon remains in the armoury of Emu members to defend them against unwelcome shocks. This means that even arge countries, such as Germany and France, have ceased to exist as relevant macroeconomic units. To all intents and purposes, they have become regions.

To deal with shocks, euro countries will have to develop other defences. Two important shockabsorbers in the US are the mobility of labour and financia transfers from booming to depressed regions.

In Europe, language barriers restrict labour mobility. Even within countries, workers have often been reluctant to up stakes and move to where the jobs are. In Italy, for example, there is relatively little labour mobility between the north and south of the country.

Emu is therefore likely to remain extremely vulnerable to strong "asymmetric" shocks. Fortunately, they are relatively rare. German unification was such a shock, affecting Germany, as it did, much more than its neighbours. The oil crisis of the late 1970s was also a big external shock, but it affected countries in the euro-zone in a relatively uniform fashion.

The best shock absorber for with ageing populations and to would greatly help the European Europe would be the creation of a increase their return on capital robust economy and a gradual invested. One way of achieving rates low. return to full employment. Critics who are not familiar tem on to a funded basis. At pres-

with Europe often argue that ent, pension contributions labour market inflexibility is the are reason for high unemployment. There is some truth in this, but labour market flexibility is not the most important issue. Euro-

The euro-zone will be a relatively closed economy. Its share of foreign trade to GDP will be about 10 per cent

pean labour markets are much more flexible than they were in the 1970s or 1980s. Part-time and temporary work are more common. It has also become easier to sack employees.

The real issue is the high cost of labour - and more specifically the large gap between the cost of hiring an employee and net wages. A large part of that gap is accounted for by indirect labour costs and most of these are made up by pension contributions. will need to be reformed to cope tries to do so. Their cooperation ally emphasised price stability as

this is to move parts of the sysused

Welcome to the euro-zone

The euro is the symbol of a new economic superpower, whose output matches that of the US.

But its financial clout will depend on closer integration, says Wolfgang Münchau

pensioners. Europe's economy would also be strengthened if governments reformed the way the welfare system interacts with the labour market. Earned income tax credits - tax rebates for low income workers - significantly reduced unemployment in the US, and might, if introduced in Europe, constitute a socially acceptable

way of embracing a low-income

iob sector. • Fiscal Policy. Fiscal policy is governed by the stability pact which recommends that governments should run balanced budgets over an economic cycle. The pact caps deficits at 3 per cent of gross domestic product, but this ceiling is likely to come under pressure. Pension reform, for one, is likely to put a big strain on government finances, because of the loss of income when workers switch from state-funded schemes to individual retirement

accounts. It is not yet clear how effectively members of the euro-zone will coordinate their fiscal policies. It will be up to the finance Many European pension systems ministers of the 11 member coun-

Central Bank to keep interest It is less clear whether Emu requires tax harmonisation. Tax

systems vary widely among the not invested but 11 member states. Britain and icy co-operation that is proving to pay existing Germany have recently been exceedingly difficult, however, is this issue. It is difficult to conceive how a single and integrated

The US has made clear it rejects Franco-German proposals for exchange rate target zones

economy can afford to run completely different tax systems in the long run but the process of convergence may take some time.

• Monetary Policy. Monetary tially destructive power. Bad Emu, while good monetary policy may not necessarily save it if Emu comes under pressure.

Europe's fiercely independent central bankers have tradition-

their primary target. But last month's co-ordinated interest rate cut by a number of central banks suggests a new sensitivity to global financial risks and the projected economic slowdown in

No advantage would be gained if Europeans were to abandon the goal of price stability in exchange for uncertain trade-offs.

ut with euro-zone inflation at about 1 per cent and falling, and nominal short-term interest rates at 3 per cent, the low level of real interest rates represents a relatively expansionary monetary policy stance for the current economic environment. The ECB still has limited room for further rate cuts - maybe up to 0.5 percentage points in the absence of any deflationary shocks - but it would be wise to time those cuts

• The international economy. US officials in particular hope that Emu will make the Europeans less parochial and intro-spective. Emu may also render Europeans far more assertive as the euro-zone becomes an effective economic superpower.

Unlike some of its individual members, the euro-zone will be a relatively closed economy. Its share of foreign trade to GDP will be about 10 per cent, similar to that in the US. But while the US has traditionally followed a policy of benign neglect towards the dollar, Europeans have tended to be obsessed by the exchange rate. This could be about to change, as Europeans discover that the euro-zone as a whole is less sensitive to exchange rate movements.

But it might be wise for policymakers to encourage a stable currency, and in particular, to prevent any excessive appreciation of the euro against the dollar. Wim Duisenberg, president of the ECB, has already indicated that monetary policy will be designed to maintain a competitive euro. The US administration has also made it clear that it rejects Franco-German proposals for exchange-rate target zones. which would allow the exchange rate to fluctuate in a given band around a target.

One area of international polengaged in a fruitless debate on the question of how the eurozone should be represented on the world stage. France, Germany and Italy want to retain their individual seats at the G7 table, alongside new representatives of the euro-zone. The US administration rejects this double representation, which might also undermine the euro-zone itself. what is a time-honoured tradition within the European Union, where there has always been a need to balance the interests of small and large countries. However, this squabbling does not befit an economic Supernower.

Emu's chances of succeeding. therefore, will depend on more than just good luck and good timing. Europe needs structural reforms, co-ordinated economic policy will play a critical part in the success of Emu. It is a potenenhance growth, and a readiness to accept greater responsibility monetary policy can destroy for the global economy. Any one of these new policies would entail a big departure from the cosy way Europeans have run their countries. Together, they add up to a fundamental change in regime.

OBSERVER

Off piste for Russians

Apart from avalanches, the big risk on the piste in Europe this winter is the influx of New Russians - complete with armed guards, bags of cocaine, wads of US dollars and reputedly boorish Their record is so bad that a

number of Austrian hotels and at least one chalet agency in the Trois Vallées region of France are refusing to accept any Russian guests. Time was when the Russians, who celebrate Christmas and New Year in January after everyone else has gone home, filled a gap in the ski resorts' calendars. But now their habit of barging other hotel guests aside and annoying chalet staff - the ritual search for bugging devices provides a rare source of amusement - has made them about as welcome as

an early thaw. A chalet worker reports one recent group used only four words of English all week -"Fetch. chicken, harn, eggs." Another New Russlan gripe is being offered too good a deal: a French chalet operator says a group turned down a cut-price package - and went to find a higher price elsewhere. Chalet

staff aren't complaining. Serial director been only 39 when in 1996 he rose to the top of Vivendi, the company formerly known as Générale des Eaux; but his enthusiasm for accumulating directorships is more typical of more elderly boardroom types. And it's definitely out of line with the recommendations set out in the 1995 Viénot report on

corporate governance in France.

It's understandable that Messier should figure on the board of every one of Vivendi's existing subsidiaries (Canal Plus, Cegetel, CGEA, CGIS Générale de Chauffe, Havas, SGE) as well as on the board of its new Spanish acquisition FCC. But he also serves at former subsidiary Saint-Gobain and at unrelated companies such as LVMH and Strafor Facom. Even so, Messier's portfolio

looks fairly modest against that of boardroom champion Antoine Bernheim, 74, who has got seats on the boards of various Lazard associates (Gaz & Eaux and Eurafrance) as well as chairing Italian insurer Generali and its French subsidiaries and being a director of companies such as AXA, LVMH, Bolloré Technologies, Albatros Investissement, Ciments Français, Eridania Béghin-Say and the André group. To fill in the time, he's also deputy

chairman of Italy's Mediobanca. Corporate governance, incidentally, translates into French as le corporate

Anglo-Saxon the Academie Française somehow managed to completely overlook.

Matter of taste

It's never too late to change your colours. Take the Scottish Moncrieff clan, founded in 1248, which has just agreed on a new tartan to take it into the next

lennium. The ancient clan has marked its 750th anniversary by inviting around 1,000 family members to vote on alternative designs displayed on the internet - to an existing tartan, thought by some Moncrieffs to be a bit on the

boring side. The winning entry comes from insurance underwriter Morag Moncrieff, 39, who drew up the new look - more green, less red - in a couple of nights. The original tartan will be retained while the new one will also be wheeled out to brighten up those interminable clan gatherings. Then again, an especially created anniversary single malt whisky should do that on its own.

Common goal

For the football-crazy Vietnamese, soccer is a deadly senous business. So perhaps it's not surprising that the national team's first fixture of the new year is against a visiting under-23 squad from recently-bombed Iraq. The governance - one bit of creeping games, one in Hanol and one in in retrospect.

Ho Chi Minh City, are the latest stage in efforts by Hanoi to strengthen links with Baghdad, following visits last year from what might seem an unusually large number of senior Iraqi

officials and delegations. Aside from football, the two nations have areas of mutual interest. Vietnam's state-owned oil company hopes eventually to Iraq is an important customer for Vietnamese rice exports, For good measure, both have experience of international sanctions - and of being bombed by the Americans.

That's the spirit

Feminists have long felt uncomfortable with the fact that the first British woman prime minister turned out to be the headbanging, handbagging Baroness Thatcher. But they might feel a little more at ease if they catch up with an explanation provided to coffee drinkers in a New York coffee

Customers browsing through Happiness Monthly - the newsletter of a Japanese religious cult called the Science of Happiness - can answer a quiz section that includes the following: "The spirit of which 20th-century British politician switched sexes just prior to being born in its current reincarnation?" All makes sense

Financial Times 100 years ago

A Flying Machine

Our Paris Correspondent

points out to us that inventors of flying machines are not confined to this side of the Channel, but that the genus is well known in France. One has, he informs us, advertised every Saturday for a year past in "The Journal" as follows: "Engineer, 35 years old, will marry a handsome lady of a poetical and sentimental disposition who may be desirous of realising the happiness of humanity and at the same time of making a profit of five hundred million francs by helping to expedite construction of a flying machine enabling folk to fly

50 years ago

S. Africa Problems Johannesburg. South Africa must export more and import less and guard against the consequences of inflationary pressure by not only the measures - credit restriction aiready indicated by Dr de Kock, Governor of the Reserve Bank, but probably by other restrictions yet to be decided and Imposed.

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FINANCIAL TIMES

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MONDAY JANUARY 4 1999

THE LEX COLUMN

Strong by default

hat are the omens for the new European currency? Will it be a healthy baby or a sickly one? Confident or anxious? The squabbles right up to the moment

of the euro's birth were certainly dispiriting. The French were furious with Wim Duisenberg, head of the European Central Bank, for allegedly reneging on a deal to retire in three-and-a-half years. Meansure on him to cut interest rates.

Neither argument carries that much weight; the ECB is, after all, one of the most independent central banks created. But this is not the most supportive political framework for the new child to grow

That said, in the new tripolar financial world, the euro's cousins - the yen and dollar - are in an even poorer state. Japan may well be driven to print money to escape from its seemingly endless slump, while the US habit of borrowing from the rest of the world will eventually catch up with it. Because everything is relative in currency markets, the betting must be that the euro will be strong, if only by default. The euro's external strength will probably go hand in hand with a strong anti-inflation stance at home. The ECB itself has effectively set an inflation target of between 0 per cent and 2 per cent, although it is so fond of obfuscation that it refuses to spell out its goal quite so

Given the deflationary forces abroad and the euro's probable appreciation. actual inflation is likely to be in the bottom half of the range. And, although the ECB may try to counteract this by cutting rates, at 3 per cent it does not have that much scope to fall.

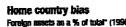
But a strong currency is not necessarily a healthy one. And here is the real problem: for all the convergence on the macro front, such as the fiscal belt-tightening (some fake, some genuine), the single currency project has been rushed. There has not been anything like enough micro reform to ensure that the euro-zone will thrive under the new single monetary are needed. policy. Labour markets remain excessively rigid and state-sponsored pension the demographic time-bomb ticking away

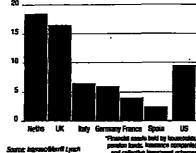
One consequence of a "one size fits all"

News

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monetary policy is that the 11 nations that have signed up need to work harder to find flexibility in other aspects of economic policy. But the euro-zone is more rigid in almost all dimensions than the US, an economic entity of roughly the same size. Not only are workers much more willing to move around the US in search of jobs. it is much easier to hire and fire them, meaning wages are more

Added to this are differences in fiscal arrangements. The US has a largish federal budget which allows it to soften the blow when one region suffers a slowdown. The euro-zone not only lacks this capability but individual nations are severely limited when it comes to cushioning their own economies. The stability and growth pact prevents fiscal deficits exceeding 3 per cent of gross domestic product.

n the absence of greater micro flexibility, unemployment will remain high in the euro-zone. At 10.8 per cent, it is more than double the 4.5 per cent in the US. And this is the main source of the anxiety witnessed in the comments of European leaders such as Oskar Lafontaine, Germany's finance minister. But the sort of macro reflation he advocates will not work; changes at the micro level

Whether politicians like it or not, the single currency will increase the pressure systems are largely unreformed, despite to adapt. This is not just because escape routes such as devaluation, a traditional way out for uncompetitive economies such as Italy, have been permanently shut

off Competition will increase across the board as the abolition of currency frontiers makes it easy to compare prices. This will go a long way towards completing the single market in goods and ser-

Much of the action will be in the capital markets, which are still very fragmented. In 1996, the largest euro-zone countries -Germany, France and Italy - invested only about 5 per cent of their financial wealth abroad (see chart). That was partly out of the view that it was risky to invest euro-zone, foreign exchange risk has now been abolished. As investors discover that the real danger lies in keeping all their eggs in one basket at home, capital will flow across frontiers. Indeed, the flows have already started.

The creation of a single capital market will unleash competition for funds. This will in turn put weight behind the shareholder value movement, which is based on the belief that companies ought to be run to maximise the wealth of investors. Those that perform well will get the funds to expand; those that do not will face the squeeze. They will less and less be able to rely on trapped local capital being channelled their way by friendly financial institutions.

A single capital market will also add impetus to the restructuring of European industry on transnational lines. Crossborder paper-financed mergers will now be much easier. Shares denominated in euros will be widely acceptable to investors through the euro-zone and perhaps further afield.

Much, of course, remains to be arranged before there is a completely integrated capital market. A pan-European stock exchange, for example, has yet to be formed - although the London and Frankfurt exchanges along with other bourses are in tortuous negotiations about creating one.

The euro-zone definitely has problems, notably excess rigidity, that make the single currency risky. But, paradoxically, the euro's creation has also set in train changes that will do much to correct these defects.

The new currency bloc can expect a bracing first few years, but the signs are that it will pull through and, in the end,

GM unveils radical roadster to revive Cadillac fortunes

General Motors, the world's biggest vehicle maker, yesterday launched its boldest drive to revive Cadillac as a global luxury brand by unveiling a radical concept car for the Detroit motor show.

The aggressively styled Evoq convertible is expected to set a marker for future Cadillacs in an attempt to modernise the ageing marque.

It is one of five concept cars that GM is unveiling to drum up interest in the group's US brands, which have been criticised for uninspiring

Sales of Cadillacs, launched in

1903 and once marketed worldwide have stalled in recent years as the brand retreated to the home market. Last year Cadillac was outsold in the luxury segment for the first time by Ford's prestige Lincoln marque. Total Lincoln production rose by 12 per cent to just over 200,000 units in the year to mid-December 1998. By contrast, Cadillac output, excluding the European-built Catera, rose by

The Evoq roadster, a boldly styled two seater with a retractable hard top and a supercharged V8 engine, is intended to shrug off Cadillac's geri-

just 6 per cent to 178,000.



atric image and re-establish its up-manager, cited Night Vision as an market credentials in GM's portfolio. Apart from more radical styling. the car contains a raft of high tech features expected to be used on future Cadillac models before filtering down the GM range.

Among them are GM's Night Vision technology, which helps night-time driving by using infra-red sensors to detect objects well beyond the reach of normal headlamps. The thermal images generated are displayed above the instrument panel.

example of the brand's new empha "Ten years from now, it will pro

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ably be available in half the products GM offers, but it started first in Cadillac," he said. Other innovations on the Evoc include cameras to replace rear min

rors, a radar and ultrasound-based obstacle detection system and sophisticated on-board computing and communications.

John Smith, Cadillac's general General Motors: Special report, Page 2

Senators consider move to speed Clinton trial with test vote

By Stephen Fidler in Washington

Prominent US senators yesterday backed a proposal to speed up the trial of President Bill Clinton, which could start as early as next Monday. However, the procedures that would be adopted by the Senate in the impeachment trial were still in doubt. The majority Republican party in Congress remained divided over a proposal that the Senate should have a test vote on whether to proceed with a trial, following the outlining of the cases for the prose-

cution and the defence. Senate Republicans are expected to meet on Thursday to discuss the issue, Mitch McConnell, the Kentucky Republican who is chairmandesignate of the Senate rules committee, told ABC television's This Week programme.

come from Slade Gorton, the Republican Senator from Washington, and as Monica Lewinsky, the former doubting its constitutionality.

Joseph Lieberman, the Connecticut White House intern at the centre of Democrat. It is being considered by Trent Lott, the Senate majority

The test vote would be held before witnesses were called, to determine whether the Senate considered the cross examined". Others said the alleged offences grave enough to justify the president's removal. If a two trial into a "carnival". thirds majority decided the offences were not grave enough, the trial would not go ahead.

According to Mr Lieberman. sion's Meet the Press, a test vote ecutors from the House of Representatives "are able to make their case".

Mr Gorton said he believed the allegations were serious enough to he did not think a two-thirds majority of the Senate thought so. The The proposal for a test vote has Senate meets again on Wednesday.

the case, could be cross-examined in the Senate is one that concerns some senators. Mr McConnell said he was not interested in having "all those folks in the well of the Senate being calling of witnesses could turn the

Phil Gramm, Texas Republican, told CBS he favoured an expedited trial, as did Joseph Biden, Delaware Democrat. Arien Specter, Pennsylvaspeaking yesterday on CBS Televi- nia Republican, said he favoured a speedy trial - and that the calling g would assume that Republican pros- a few witnesses need not extend

process significantly. Senators speaking at the weekeno appeared anxious to avoid the accusations of partisanship that were levjustify the president's removal, but elled at the conduct of the impeachment proceedings in the House.

Most senators polled on yesterday's television talk shows opposed The prospect that witnesses such the idea of a censure vote, many

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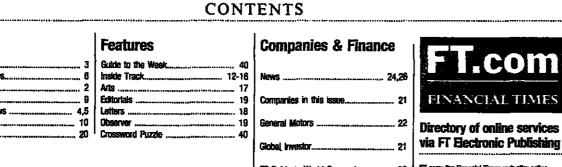
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pads, paralysing much of the country. Page 3

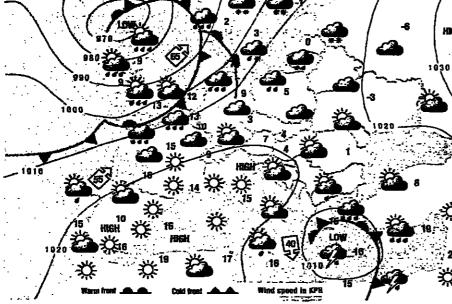
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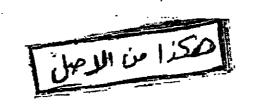
Europe today nmark and south-western parts of Norway and Sweden will be Scandinavia will be cold with snow flurries, High pressure from Spain through southern France, the Alps and across to the Black Sea will bring mainly dry and settled although morning fog may be slow to lift from the valleys. The eastern

an will be unsettled Five-day forecast windy and unsettled with rain but it will become mild. Northern Scandinavia will stay cold with

Scandinavia to the Baltic countries, it will become milder, with rain and gusting winds. High pressure will over much of southern Europe.



TODAY'S TEMPERATURES Mejoras Mejoras Menchesk Manchesk Mesco Ci Memi Mesco Meso Moscow Musch Napes Nassau Noscow Noscos Napes Nassau Noscos Napes Nassau Noscos Napes Nassau Nosco Napes Nassau Napes Nassau Napes Nassau Nasau N



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INSIDE

New Visteon chief keen to break free



As the new head of Visteon, the second biggest automotive supplier in the world, Craig Muhlhauser (left) is moving fast to create a "shadow" structure of an independent company as soon as possi-ble. Mr Muhihauser, who joined Ford Motor's parts offshoot

in July 1997, took over on January 1 from Charlie Szuluk, who had overseen Visteon's moves to partial independence from Ford in September 1997. Page 26

Traders learn lessons of a hard year Emerging markets traders spent last year sobering up. Thoughts of quick returns were displaced by a realisation that the risks often outweighed the rewards. The lesson has been that domestic crises can send all emerging markets down, regardless of individual national economies' strength. Emerging Markets, Page 28; Chile's year to forget, Page 26

Regional ale brewers can stay strong The Campaign for Real Ale says real ale lovers should not feel too downhearted over the loss of two more regional breweries last year. Camra says neither of the closures were necessary and that the UK regional brewers can still prosper if they concentrate on cask ales. Page 24

Tomkinsons upbeat on trading Tornkinsons, the UK floor covering maker and supplier, said November and December trading was better than it had expected. Its optimism contrasted with gloomy comments from other home furnishing groups. Page 24

New year to begin as old one ended Analysts agree that the

Against the dollar (4 per \$)

currency markets in 1998 "broke the record books" for volatility and uncertainty. It was a year that many, especially those veterans of the dollar-yen gyrations, will be happy to forget. The new year is likely to begin as the old one ended, with low volume in the markets and few traders wanting to take big bets

Rally in western bonds powers on Conservative investors reaped dividends last year with leading western government bonds providing by far the best returns in the global fixed-income market. With the possibility of deflation likely to become a theme soon, the rally in western government bonds is by no means over. Bonds, Page 29

until the euro has settled. Currencies, Page 29

Prospects for Nikkei not bright Tokyo's Nikkei 225 index fell more than 9 per cent to 13,842 in 1998, the third straight year in which it ended lower than it began. Prospects for this year are not bright, largely because eco-

FT GUIDE TO THE WEEK

full listings Page 40°

Salzburg on Thursday.

FIRST DAY FOR EURO Today is the first working day for Europe's euro currency, including closure of first price quotes in euro at the Brussels Bourse. MIDDLE EAST VISIT BY JAPANESE Masahiko Komura, the Japanese foreign minister, begins a week-long visit to Israel, Egypt and the Palestinian territory tomorrow. BLAIR VISITS SOUTH AFRICA Tony Blair, the UK prime minister, begins a three-day visit to South Africa on Wednesday. HOUSE SITS FOR FIRST TIME On Wednesday the newly elected US House of Representatives sits for the first time. SALZBURG CONFERENCE Austrian Chancellor Viktor Klima's Social Democratic party opens its annual conference in

COMPANIES IN THIS ISSUE

Pacific Internet DTB E. Leclero Ford Motor

MARKET STATISTICS

29 Stock markets at a glance 39

Liffe firms fear Griffin backlash

Independent traders on London derivatives exchange expected to withdraw funds

By Clay Harris, Banking Correspondent

London's derivatives exchange are expected to face a huge outflow of capital today as independent traders withdraw funds in the wake of the biggest trading scandal since the Barings collapse in 1995.

The independent traders, known as locals, at London International Financial Futures and Options Exchange (Liffe) are concerned about a lack of protection,

At least one firm has taken

By John Labate in New York

Pacific Internet, the online

service provider owned by the Singapore government, is plan-

internet share price boom with

The IPO will be the first

internet offering in the US by

an east Asian company. Pacific

Internet has registered to offer

2.5m shares or 20 per cent of

its outstanding shares at an

offer price between \$13 and \$15, raising about \$35m. The

lead underwriter of the deal is

Lebman Brothers and the

shares are expected to trade on

The offering comes as US

equity markets are expected to

absorb a new round of first-

quarter internet IPOs. The

the Nasdaq stock market.

By John Labate in New York

in 1998 to its low

nearly a decade.

The volume of new issuance of

American Depositary Receipts

foreign companies - tumbled

Volume fell to about 40 per

cent below the average of pre-

scaled back plans to float their

shares in response to the

global financial crisis.

within the next fortnight.

ning to cash in on the US shares.

Pacific Internet

poised to launch

first US offering

an initial public offering internet sector's leading

Smaller clearing firms on flight to perceived quality said yesterday: "We will have locals queueing at the door." On one of the most closely

watched trading days follow- the scandal even though the ing the launch of the euro, Liffe could also find itself at a trades in question on Eurex, because capacity has been slashed by the freezing of traders' accounts.

Trading in certain maturifutures, where locals provide much of London's liquidity, out indemnity insurance to try may be especially hit. The cri-

state-owned ISPs in Singapore.

willingness to cash in on the

investor frenzy for internet

Enthusiasm for many of the

names remains high. Last

week America Online - a com-

pany similar in structure to

Pacific Internet, but on a far

grander scale - reached an

all-time closing high of \$160

many had expected to be a

The recent rebound in inter-

which have set records for

first-day share price gains, has

been overwhelmingly by US

companies. It remains uncer-

Bank of New York, the largest

In contrast, volumes of new

listings exceeded \$18bn in 1997.

the levels of 1996.

which itself was slightly below

high demand from US inves-

tors, with the amount of trad-

Non-US companies raised ing volume in ADRs rising Donovan, global managing

At the same time, however, cent in 1998.

ings last year, according to the US exchanges last year.

period in the US.

and the government's plans to

while one of the bigger banks lapse of Chicago based Griffin expected to benefit from the Trading Company because of a 55.2m (\$10m) loss by an independent trader who cleared through its London branch. Liffe has been caught up in

competitive disadvantage its continental European rival and successor to Frankfurt's Deutsche Terminbörse (DTB). Trading futures contracts in

trader, John Park, did the

German government bonds ties of European interest rate just before Christmas. Mr Park exceeded his authorised limit by 10 times in transactions through the broker Tullett & MeesPierson, have been out-

to discourage withdrawals, sis for Liffe follows the col- Tokyo. Investigations will raged by UK regulators' sugfocus on how Mr Park man- gestion they should have aged to conceal the extent of insisted on segregated his exposure from Griffin. Some attention may be paid to learn their funds had not

> contact at Tullett & Tokyo a few days before. A Liffe official suggested the and could result in the London

market winning more business But local traders caught up in the collapse because their the minimum necessary for funds are at risk after being trading margin. "You're going frozen by Griffin's clearer.

accounts. Most were surprised to a dinner Mr Park had with a been segregated. One local contrasted London

and the orderly transfer of Griffin's customer accounts in incident highlighted flaws in the US by the Chicago Board Eurex's clearing procedures of Trade, whose clearing house maintains a \$100m safety net. She said London locals would no longer leave any funds in their clearing accounts above single day," she said.

launched By Vincent Boland in London The pan-European equity market alliance between the Frankfurt and London stock exchanges opens this morning.

> beneficiary. The accord, which is expected to widen later in the year to include up to six more Eurobean exchanges, means that trading in German company shares will move to Frankfurt and dealing in UK shares moves to London. The agreement to concen-

with the German partner

expected to be the clear early

trate liquidity in domestic markets – seen as a concession to Frankfurt by the LSE - is expected to dent severely the volume of international equity trading in London.

The UK market is by far Europe's largest international trading centre and turnover in German shares accounts for between 10 and 15 per cent of the total of its overseas busi-

Turnover in international equity trading on the London Stock Exchange rose 52 per cent this year to £2,195bn (\$3.687bn), and trading volume in German stocks in the UK market, which reached £170bn in 1997, is understood to have risen sharply during 1998. Turnover of UK stocks in the

Frankfurt markets, however, is

less than 10 per cent of that

figure. But total equity trading volume on the German stock exchanges rose 45.3 per cent in 1998 to DM5.400bn (€2.770bn, \$3,253bn), according to Deutsche Borse, which operates Frankfurt's financial markets. As part of the first phase, the two exchanges will also allow dual access for each other's member firms. Crossmembership is expected to have little impact on how firms deal with the London and Frankfurt exchanges because most of the big sharetrading firms are already mem-

bers of both. As a result, an offer of free technology to allow firms to gain access to both markets is believed to have had a mixed

arrival of the euro and are the earliest stens on the way to the creation of a single platform to offering to attract more new | UK and German companies essentially the members of the FTSE 100 and Dax indices, But the final shape of the venture ings for European-based list- will not emerge until at least



A Pacific Internet employee looks over some of the company's networking machinery

at Citibank.

Citibank figures.

outperformed the Standard & nies in Brazil and Russia.

robust online holiday shopping from their own country, especially with uncertain nearterm economic growth to con-

net IPOs, however, some of sider. "The use of the internet is of that this company has pretty good prospects," said company is the largest of three back Pacific Internet and other sance IPO Fund. "The main revenues

just \$10bn through ADR offer- more than 20 per cent on the director for depositary receipts

A separate study of ADRs by

Poor's 500 index through mid-

December, rising by 25 per

"We think it indicates inves-

quality equity programmes in volatile markets," said James

per share, in the wake of what IPOs from emerging markets concern is if people will be (US\$31.5m) and net income of with the same force as deals willing to pay for internet \$\$10.1m (US\$6m). connections in an unstable Pacific Internet's recent suc-

cesses are likely to turn heads. though, not least because it expanding in Asia and because has managed to expand and make money at the same time. For the first nine months of tain whether US investors will Peony Kao, analyst at Renais- 1998, the company reported prosper as the Asian internet

The UK again had the high-

Equant NV, the data network-

ing services company based in

the Netherlands, had the larg-

It provides online connec-

tions, mainly to consumers, in three main markets: Singapore, Hong Kong and the Philippines. Although small, with just under 200,000 subscribers in June 1998, analysts believe the company will continue to

impact European monetary

ADRs slide as non-US companies stay away

Feuters

integration will have on the lead-manager of foreign sec- Citibank, the subsidiary of est number of ADR pro- US ADR market in the year Citigroup, found that the 20 grammes listed at 20 for 1998, ahead. Deeper European capimost actively traded ADRs had followed by 17 each by compa- tal markets are expected to raise the level of overall activity. But it is unclear what euro-zone stock exchanges are

est issue for the year at listings. "We don't think [companies] came to the market met with tor demand for the high- \$705.5m, followed by Telekowill abandon dollar-based listmunikacia Polska SA. of Poland at \$601m, according to ings," said Mr Donovan.

response. The moves coincide with the

PHILIP COGGAN

secondary share offerings by ondary offerings in the US.

vious years as companies those non-US companies that

st level in

GLOBAL INVESTOR Measure of uncertainty

What price shares? The challenge for investors and analysts watching the markets in 1999 will be to work out a new relationship between equity and bond valuations. It has become clear in the

1990s that some of the old measures for valuing shares are no longer useful, especially for fund managers whos performance is measured in the short, or even medium, term. Anyone betting against the US market on the grounds that its dividend yield was at an all-time low or that the price-earnings ratio was at a

extremes has been the decline in inflation and the resulting falls in bond yields to levels not seen for a generation. This has prompted a steady uprating in share valuations. with occasional interruptions,

since 1982. US analysts prefer to look at the earnings yield – the inverse of the price earnings ratio - relative to the bond yield. This approach has been much more supportive of Wall Street, At the start of 1996, when most non-US investors would have seen the US market as expensive, the earnings yield ratio made it look dirt cheap. Even now, with the Dow Jones Industrial Average close to all-time highs, the ratio is well below

But that is no justification for complacency among equity investors. The reason old-timers liked looking at dividends rather than earnings

was that the latter are subject to manipulation. Given that any earnings disappointment is savagely treated by the market, manipulation seems likely to continue, especially as so many executives are loaded up with share options. Furthermore, for all that dividends are no longer

fashionable, many investors still need income to pay their clients and beneficiaries. Share buy-backs are all very well but must be classed a lower quality form of income than dividends. A dividend cut is a highly market-sensitive event, whereas the quiet shelving of a huv-back programme is much less likely to be noticed.

Takeovers, the other main route for cash to flow back to investors, are a highly erratic source of income. The acquisition binge dried up during the market plunge of mid-July to early October. And most recent deals have been nil premium all-share mergers

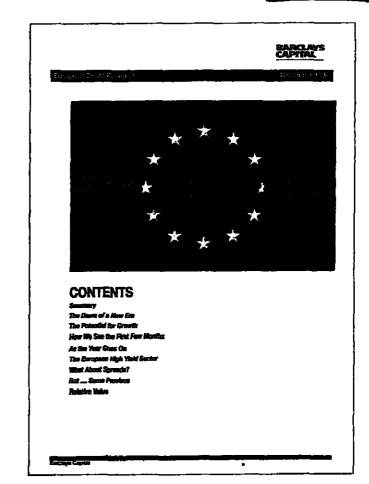
Another fundamental issue is whether the new low inflation growth also implies slower growth for corporate profits. The fact that US corporate profits in recent years have repeatedly fallen short of initial estimates is often dismissed as a statistical quirk; earnings forecasts are based on the rosy predictions of "bottom-up" analysts that all serious investors take with

In addition, how should

line that these companies will be churning out the profits earnings? Many of the likely Amazon.com. owe their ameal more traditional competitors. In the long term, their growth may make the economy more efficient but, in the short term, their success will put margins This could mean large parts of the service sector will face the

manufacturing. The result could be that profits, having risen faster in the doldrums. In such circumstances, the greater security and higher income available from bonds could seem more attractive in spite nominal yields. The earnings yield-bond yield ratios that worked as a guide to market

EURO CREDIT FOCUS



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repeatedly disappointed.
The justification for these

the peak 1987 level.

a bucket of salt. But what if profit growth in recent years has been mainly driven by a fortimate combination of cost-cutting, falling intererst rates and lower commodity prices?

forever; manufacturing commanies are already suffering from the crimbing effect on margins of global overcapacity in their sector.

valuation measures adjust for the increasing importance of internet stocks within the US market, where multibillion pound companies normally have negative earnings and, sometimes, precious little in the way of sales? Even if one swallows the

within five years, what will that mean for overall market internet successes, such as to their ability to undercut and profits under pressure. Same someeze as

than gross domestic product in the US and Europe for several years, could face a long period of the historically low levels of valuation in recent years may

Midwest giant struggles to find forward gear

As the US motor industry gathers at the Detroit Motor Show, Haig Simonian and Nikki Tait examine the daunting task facing the world's biggest vehicle maker

tendent at General models. Motors' engine works in Moraine, Ohio, heads out on a site inspection. As he turns on his truck's ignition, a Japanese language tape starts playing. Mr Leahy cautiously throws out a few phrases.

A decade ago. Japanese carmakers were reviled by US com-petitors. Today GM, the world's biggest vehicle builder, is offering middle managers language lessons as it tries to inculcate Japanese know-how into its

Mr Leahy's struggle with Japatransformation rocking America's biggest manufacturing company. For the first time in its history. GM is having to adapt to the challenge of globalisation in a bid to catch up with competitors that have overtaken it, if not gest market, share has also been in size, then in effectiveness. Long an international concern, it is only now beginning to pull together its far-flung operations to exploit its potentially massive economies of scale to tackle the twin scourges of overcapacity and cut-throat competition confronting its industry.

managers across the company. reveals a corporate drama unfolding on a world scale. It involves personality clashes and multi-billion-dollar product gambles, as a traditionally bureaucratic. inward-looking manufacturer rooted in the Midwest faces up to the profound changes demanded by a new global market.

Like the transformation of IBM more than a decade ago, the upheavals at GM have already revealed serious flaws in strategy and brought countless executive casualties. What is not yet clear is whether the company will manage to reap the benefits of its huge global manufacturing business. Or will GM's very size turn out to be the biggest obstacle to its goal of running common processes around the world?

for almost all carmakers," admits Jack Smith, GM's avuncular ket, where it is the third biggest chairman. "But for GM, in particular, it is a huge undertaking."

half the cars sold in America. Subsidiaries like Chevrolet, Oldsmobile and Cadillac were massive employers in their own right. GM controlled such household names as Vauxhall in the UK and Opel in Germany. Today, its size is still daunting.

In 1997, its 608,000 employees built or assembled 8.8m cars. trucks and buses - almost one in six of all the vehicles made in the world. Even after shedding noncore assets. GM's activities stretch from railway engines to satellite television. With sales of \$178bn (£106bn) in 1997, GM's turnover caualled the combined GDP of New Zealand, Portugal and Luxembourg. But such impressive statistics

do not obscure debilitating drift. • In the US, GM's share of new car sales has slipped from a peak of 50.7 per cent in 1962 to about 30 per cent today, as buyers have defected to smaller, cheaper and

ave Leahy, plant superin- more reliable - often Japanese -

• Strikes last summer highlighted GM's lagging productivity. The estimated labour cost per vehicle averaged \$1,493 at Ford in 1997. At GM, the figure was \$2,000. It took GM 30.32 employee hours to make a vehicle, compared with 22.85 at Ford. Japanese producers all came in below 25 hours. And at Nissan's Smyrna plant in Tennessee, the figure was just 16.55 hours. In sales and marketing, GM

has been hampered by a scrap between rival GM brands, as the powerful barons running the company's main domestic marques concentrated more on competing with each other than developing a co-ordinated strategy to tackle Ford, Chrysler or the growing imports.

● In Europe, GM's second bigfalling steadily. Vauxhall/Opel has lost its crown as Europe's leading car brand in the face of a resurgent Volkswagen and Asian

 Elsewhere in the world. GM has been subject to economic turmoil. Damage in Asia has been limited, but collapsing demand in A special FT report, involving South America has inflicted interviews with executives and greater havoc. GM has cut pro-

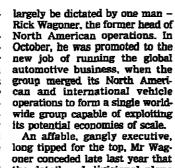
> Will GM's very size turn out to be the biggest obstacle to its goal of runnina common processes

Brazil, the region's largest marhas also been cut in Argentina, Chile and Venezuela, where GM also builds or assembles vehicles.

around the world?

These problems have occurred at a time of unprecedented change in GM's industry. Daimler-Benz's takeover of Chrysler has changed the rules for the world's carmakers. Although DaimlerChrysler is half GM's size, the merger has forced every company to reassess its assumptions about optimum size and economies of scale.

The DaimlerChrysler deal also comes at a time of renewed confidence among GM's rivals. Ford is on a roll now that its ambitious global reorganisation plan. unveiled in 1994, is starting to bite. Toyota, the world's third biggest carmaker, is firing on all cylinders, in spite of sagging demand in Asia. In Europe, VW has demonstrated that manufacturing in high-cost Germany is not an automatic obstacle to making money in volume cars. Whether GM pulls through will



the detail and divisional plans were still being worked out. "We've never tried to run a company this way," he warns. So far, only fractions of GM are operating to the new global blueprint. Purchasing is the area

one global operation as early as Today, the division handles \$70bn-\$80bn of business a year. of GM's top executives - includ-Multi-billion-dollar purchases are co-ordinated through weekly globe-spanning conference calls. Substantial cost savings have flowed. About half the \$4bn GM expects to cut from its costs in

"We are the biggest car company, so if we are buying for all gen Stockmar, Opel's head of our volume, we have a huge opportunity to reduce our costs." says Mr Smith. "That's been true since 1992, and nothing's changed. But we're not finished with anything we have to do we've got a long ways to go."

1998 should stem from materials

Executives admit that GM still trails its best competitors in some respects. "In the early days, we were really focused on issues surrounding our competitiveness from a cost-saving standpoint," says Tom Fabus, purchasing director for the North American car platforms. "Over time, it's shifted to competitiveness on quality and technology." Advances have also been made

in engines and gearboxes known as powertrain. Just over a year ago. GM decided to unify its operations - a \$13bn business employing about 57,000 people brand after VW and Fiat. Output and split responsibilities worldsibility for four cylinder engines and manual transmissions: North America runs larger engines and automatic transmissions; while Isuzu, the Japanese truckmaker in which GM holds a 49 per cent, leads in diesels.

But even in areas such as purchasing and powertrain - already well ahead of the rest of GM the time-scales for change are daunting. Arv Mueller, the GM veteran running powertrain, says it will take at least five years before the powertrain plans are fully implemented. The pace is largely dictated by

the time it takes to develop new cars, and hence replace investment. "There really isn't a finishline," says Mr Mueller, "but I guess we're probably a third of the way to where I would want to

The sheer size of GM's operations does not help. It has taken powertrain alone the best part of a year to consolidate budgets from scattered units. Only this year will the group have its first global budget. Much the same applies in man-

ufacturing. Over the past couple of years. GM has centralised responsibilities to ensure all new investments in body shops, dies or full plants are made to common specifications. The aim is to improve manufacturing flexibility and allow production to be shifted around more easily. But achieving such commonality will take years, "We're turn-

ing over programmes every four

to five years," says Tom LaSorda.

a manufacturing vice-president. So in four years, a single-model plant should be common with everybody else. [But] for a plant that has four or five models, its cycles might be a little longer." Mr Smith admits the speed of change "is basically determined by how fast we can develop new product. It's a huge focus for us. Our average time to develop a car, just a couple of years ago, was over 40 months. Today, all our new programmes are aimed at 24 months . . . and that's not good enough, because some other companies are starting to work

on 18-month cars." His over-riding goal of "running common" should eventually bring greater flexibility and allow GM to capitalise on its prodigious economies of scale. But greater harmonisation will not solve the vawning cultural and management problems which have become evident in recent months. especially in Europe.

executives like to cite. GM began The team to kick-start the vehicle-making juggernaut: Rick Wagoner (left), in charge of the global automotive business, and Jack Smith, chairmen. the task of combining some 27 Below left, tail fin of a 1959 Cadillac Eldorado Biarritz, and, below right, rear wing of the new Cadillac Evoq Roadster largely autonomous units into Many of the frictions stem from dell to run Saturn, the small-car to keep consumers engaged, GM the ingrained Midwestern focus

> and Mr Wagoner, who have served in senior positions abroad. Such cultural clashes, which GM must overcome if it is ever to achieve its global ambitions, lay behind a string of high level resignations in recent years, such as the June 1996 departure of Jürproduct development, at the apparent redirection of Opel's scarce resources from European to global cars.

Other changes, notably last October's return of Gary Cowger, Opel's chairman, to the US after only four months in the job, betrayed similar insensitivities on the part of GM's Detroit bosses. Mr Cowger's move caused an uproar in Germany, where it organised, at least in part to seemed to confirm fears that GM was insensitive to its German subsidiary and European needs.

Such sensitivities have not been soothed by GM's decision to fixer and close associate of Mr Smith's, as Onel's new boss, Mr. Hendry already has his hands full running Saab, the Swedish "Globalisation is a major effort duction and laid off workers in engines and transmission carmaker in which GM has a 50° over time. per cent stake and management

the problems vis-à-vis Onel arose from what was viewed as a stretching of resources to support some of the globalisation issues. The fact is that most of those [international] projects are up and running, and frankly have been turned over to flocal managementl," says Mr Wagoner. New models are another part of

GM's hoped-for solution. Mike Burns, the new chairman of GM Europe, admits to poor quality, profits and morale in the past. Quality, for example, is, "clearly an area where we've got to do things. This business is capable of operating at a level better than in recent years." That will be a tall order in a

viciously overcrowded market in

'We are the biggest car company, so if we are buying for all our volume, we have a huge opportunity to reduce our costs'

which every carmaker hopes to overcome its overcapacity problems at the expense of other brands. GM's problems will be compounded by Mr Hendry's dual responsibilities. Some analysts fear he could be distracted from seeing through Saab's long forecast turnround. Since spending \$600m to buy into Saab in 1989, GM has struggled to restore profitability. Mr Wagoner admits manage-

ment succession in Europe has been flawed. "We've developed some excellent management teams [outside the US], but succession planning has not been as strong as it should be. We need to make sure we work at giving foreign nationals opportunities to develop careers globally."

One positive signal of a cultural shift in the company's senior ranks, still dominated by North American veterans and noticeably less diverse than at Ford, was the appointment just to happen, we'd be flexible." before Christmas of Cynthia Tru-

subsidiary set up in the 1980s to take on the Japanes A feisty 45-year-old Canadian ing the handful, like Mr Smith

who has climbed the ranks through the production side, she combines the technical expertise. management skills and international experience which will become paramount for GM in future. Mrs Trudell will be the first woman to run an entire car division in the US auto industry. She admits GM used to be bureaucratised. "But I don't see the level of bureaucracy I used to see

in the past," she says. "There's less tolerance for that at the top. In another encouraging sign of change, GM will from this year recruit as one company, instead of separate divisions. Common managerial priorities have been stated and training initiatives emphasis corporate goals and encourage intermingling of people from different functional divisions. "A strong piece is the leaders' teaching," remarks Katy turn to Bob Hendry, a veteran Barclay, head of human resources, pointing out that Mr Smith himself now teaches a seminar on "chairing GM". But, here too, progress will only come If Europe is calling for reme-

dial action, Asia is pulling even GM says more resources will be harder. "That's where the growth wide on the basis of expertise. devoted to Europe to smooth is going to come from long-term," "Basically, we wanted to get to-

a 10 per cent market share in Asia over a 10-year time frame. Today, I guess the Asian crisis has changed our thinking. A couple of years ago, it didn't seem possible to acquire anyone in Asia . . . but today things are different. There are many companies in trouble, and now there's excess capacity. Going forward, we would consider acquisitions that made sense to us". Before that, GM still needs to

sort out its own US backyard. Immediately after last summer's strike, it took a first, crucial step to consolidate the formerly independent divisional sales and marketing operations of its main North American subsidiaries, cutting 15-20 per cent of the 5,100 jobs. Small teams of a few dozen people would remain to support advertising for the brands. But. aside from them, there would be a single sales, service and parts field force, saving an estimated \$200m-\$300m a year. The changes marked the culmi-

nation of a campaign plotted over the past four years by Ron Zarrella, former president of the Bausch & Lomb eyewear group and a marketing whiz hired to instil greater focus into a chronically blurred operation. As Mickey DiGiovonni, GM's

chief market researcher, puts it: "In the early 1990s, we had too many products and far too many that were competing against each other". Over the past five years, the number has fallen from 108 to about 77, although any further reduction is now likely to be modest. But even if the product portfo-

lio has been rationalised and bethave wondered why GM still needs six brands (including Saturn]. "We believe that multiple brands are our strength," says "Up to this point, we've concentrated on blocking and tack-

ling. We had to get our portfolio back on its feet. We think that process is working. Now we're trying to shift and we've got to get into long-term innovation." Still, Mr DiGiovonni concedes there may yet be "re-evaluations" down the road. "We all agree Oldsmobile has a big challenge to rebuild its brand name. But there's no reason why it

shouldn't be as successful as

what happened to Pontiac in the

Critically, as part of the effort

has started developing cars more quickly. Mr Smith says the group will launch a product every 28 days from now until the middle of the next decade.

The key question remains, though. Why, after all the work which has been done, hasn't GM's North American market share recovered? Mr DiGiovonni maintains this is because the pro-

'With the strikes, we lost a lot of momentum. I think that the impact has been far greater than you can calculate financially'

cess is still fairly new; only 22 per cent of the portfolio has been turned over to date, mostly in the past two years. Another 45 per cent will be reinvigorated in the Some dealers have argued that

GM needs to become more adventurous. The company must "be willing to take risks" said Paul Holloway, 1998 head of the National Automobile Dealers Association, and could use "a good car guy" to develop hotter products. Significantly, Jac Nasser and Ferdinand Piech, precisely such people, have been widely credited with reviving Ford and VW. Mr Wagoner sees the issue dif-

ferently: "We think market share can go up - but with the strikes, we lost a lot of momentum. If you talk to the dealers, it's stop and start. They don't know if they should make a deal to move a product ... I really think that's hurt our distribution system's ability to plan. It's hurt our start-up on a number of models. I think that the impact has been far greater than you can calcu-

This leads directly to the labour issue, one of GM's biggest remaining bugbears. When the strikes ended last summer, GM appeared to have achieved relatively little for the \$2bn-plus direct cost, beyond a general pledge on the United Auto Workers' part that, together with the company, it would try to work more co-operatively in the future.

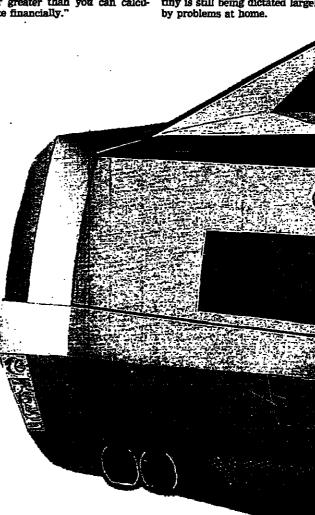
Since then, there have been ome encouraging signs. Richard Shoemaker, the senior UAW official in charge of GM relations. has made presentations to the senior North American managerial group - a once unheard-of approach. A potential strike at Saturn was defused last autumn. Mr Cowger's appointment has been generally welcomed on the labour side. Still, with the need for a new national agreement this year, progress is tentative and no one is keen to say too

Mr Smith, meanwhile, is adamant GM can use natural wastage to trim its head count without provoking further disputes. The relatively advanced age of GM's US workers - an average 48 means numbers are declining by about 6 per cent a year. "We can get to where we want to through attrition." he argues. "If you're asking: Could it be

done faster? Perhaps. But by and large, the trade-off is, do you when you have such a high attrition rate anyway? Why have a hattle when we don't need one? Labour is only 20 per cent of our cost. The key driver is purchased material, which is over 50 per cent. That is where we drive But that is only partly true.

GM can point to impressive achievements in co-ordinating its massive purchasing budget and creating common processes. But last summer's strike rammed home the fact that the group cannot begin to achieve its global aims until it has greater stability Much of the mid- to long-term

in its labour relations at home. challenge for GM will remain in co-ordinating its global operations more effectively, and in instilling a more open, international management culture. In the short term, however, its destiny is still being dictated largely by problems at home.





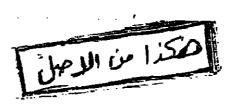
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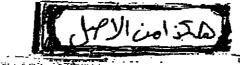
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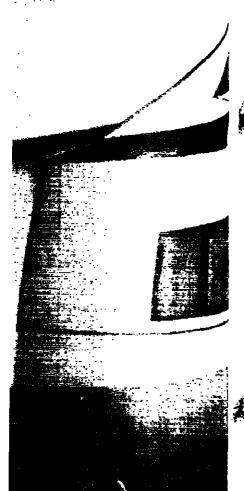
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Allied Domecq to sell Irish drinks unit

By Charles Pretzlik

Allied Domecq, the UK spirits and pubs group, is poised to sell Candrinks distributor, for more than £500m (\$800m) to BC Partners, the venture capital

Cantrell was widely expec-Allied is understood to have achieve a better price.

trell & Cochrane, its Irish buying the 49.6 per cent is expected to be announced stake it did not already own from Diageo in July.

with brands like Beefeater

flotation and that it would BC Partners is believed to have offered about £530m, Allied has been looking to although contracts have not dispose of the business since yet been exchanged. A deal later this month.

It would represent a big However, it does not con- bite for BC Partners. Last sider the business, which year the firm paid £360m for distributes mostly soft Hurst Publishing, whose ted to be floated off, but drinks and beer, to be part of titles include Auto Trader. its core spirits operations, and last month it bought Ross Breeders, the poultry

quicker and simpler than a gin and Tia Maria liqueur. breeding division of Hills- Donuts chain and Baskin how much it paid Guinness down Holdings, for £100.5m. The sale of Cantrell is part of an attempt by Allied's

> to focus on core operations. Last year Allied merged its Victoria Wine off-licence chain with Whitbread's rival Thresher chain, and analysts believe Allied will review the future of its other retail busi-

> nesses, which include over

2,000 pubs, the Dunkin'

Allied has held talks with

Seagram, the Canadian just under £230m. chief executive. Tony Hales. drinks and entertainment group, in an effort to strengthen its spirits business. However, the talks, which covered such options ing approval from the Euro-

Allied is expected to make a profit on the sale of Cantrell. It has never disclosed

for its Cantrell stake but analysts put the figure at

Diageo was forced to reduce its interests in the Irish drinks distribution sector as a condition for obtainas joint ventures and a pean Commission for the merger, ended late last year. merger between Guinness

NEWS DIGEST

CHARTERED SURVEYING

Strutt & Parker buys hotel and leisure rival

Strutt & Parker, the UK chartered surveyor, has acquired William Hillary Leisure and Hotels, a smaller mval specialis.

ing in hotel and lessure property. Roger Pryor, a partner of Strutt & Parker. said: "This will provide valuable expansion to the services we can offer our clients and confirms our confidence in what we perceive to be a growth area of the property market." About half Strutt & Parker's business is commercial, with the balance in the rural market.

Founded 114 years ago, it employs 500 staff and has 30 partners. William Hillary, which has been in business for 18 years, has five employees working in its London and Salisbury offices.

The move underscores the trend for consolidation among chartered surveyors. Last year Jones Lang Wootton merged with LaSalie Partners of the US; Healey & Baker agreed to merge with Cushman Wakefield of the US; and CB Richard Ellis acquired Hillier Parker. CB Richard Ellis was formed by last year's acquisition of Richard Ellis by CB Commercial of the US. Charles Pretzlik

MEDIA

Kirch restructures

Kirch, the privately-held German broadcasting group, is expected today to unveil details of a wide-ranging reorganisation that could pave the way for outside investors

to join as partners in its media activities. Kirch, which was founded by Leo Kirch, has been under pressure because of its investments in digital pay-TV,

which have cost DM1bn (£300m). Today's announcement is expected to concentrate on reorganisation measures - including the setting up of three holding companies - rather than possible future partners. But the group has in the past held talks with Silvio Berlus-coni, the Italian media magnate, Rupert Murdoch's News Corporation and the Saudi Prince Al Waleed. Rainh Atkins, Bonn

HOUSEHOLD GOODS

Tomkinsons trading optimism

Tomkinsons, the UK floor covering manufacturer and supplier, said that trading in November and December was better than it had expected. Its optimism contrasted with gloomy comments from other home furnishing companies, but was consonant with an upbeat trading statement a week before Christmas from CarnetRight, the retailer headed by Lord Harris of Peckham.

Michael Hield, chief executive of Tomkinsons, said the good trading was the result of the group's strategy over 15 years of focusing on small independent retailers for distribution and relying on colour, design and creativity to sell its products. The small retailers tended to try harder when markets got tougher, he said.

"We've got 2 per cent of the total £1.6bn UK floor coverings market, and in such a fragmented area it's always possible to move up a bit," said Mr Hield.

In November, the group announced a 17 per cent rise in pre-tax profits to $\Sigma 2.01m$ on sales of $\Sigma 30.5m$. Williams de Broë, the house broker, is forecasting profits of $\Sigma 2.1m$ this year. David Blackwell

BANKING

BLG lifts Hungarian stake

Bayerische Landesbank Girozentrale has bought the 7.98 gn irace Bank formerly owned by DEG, the German investment and development concern. The sale - announced last week for an undisclosed sum - brings BLG's total stake to almost

MKB is Hungary's second largest commercial bank and had consolidated assets of Ft 530bn (\$2.45bn) in mid-1998. BLG and the European Bank of Reconstruction and Development (EBRD) acquired a minority stake of MKB in the first privatisation of Hungary's larger state banks in

The EBRD is expected to sell its 16.7 per cent stake, possibly in conjunction with a public offering and listing of MKB on the Budapest Stock Exchange. Kester Eddy, Budapest

HOUSEBUILDING

Bid to oust Tay directors

A rabel shareholder in Tay Homes, the Leeds-based housebuilder, is today expected to call an extraordinary meeting to replace four directors with its own nominees. Sunley Family, which has a 10.1 per cent stake, is angry

at the 20 per cent drop in Tay's share price last year. It will try to oust Norman Stubbs, chairman, and John Swanson, chief executive, as well as two other directors, Stephen Evans and Jack Green. Sunley will seek the appointment Peter Hedges, a former

deputy chairman of Taylor Woodrow, and Richard Tice, joint chief executive of the Sunley Group, an unquoted property development and housebuilding group. Mr Tice would run Sunley and Tay side-by-side but would not merge the two. The decision to call an egm comes after Tay last month

rejected Sunley's demands for a seat on the board and further management changes.

Tay's largest shareholder, Phillips & Drew, which has a 15 per cent stake, has undertaken to vote in favour of Sunley's resolutions. Other leading shareholders are Fidelity, with about 10 per cent, and Foreign & Colonial, with about 7 per cent. Charles Pretzlik

ENGINEERING

Renold offer 'unconditional'

£5.14m recommended offer by Renold, the engineering group, for Jones & Shipman, a maker of abrasive machine tools, has been declared unconditional. Renold said that shareholders representing 60.7 per cent of the equity had accepted the offer, which valued Jones' shares at 20p each. Schroders acted for Renold.

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Regions can continue to brew up an independent spirit

Despite recent closures and consolidation David Blackwell finds optimism among some of the country's smaller brewers

overs of real ale should not feel too downhearted over the loss of two more regional breweries last year, according to the Cam-

theory that regional brewing is in decline on the basis of those closures," argues Roger Protz of Camra. He highlights the continuing shares, had failed in two success of two brewers - attempts to buy the remain-Greene King of Bury St ing equity, mostly owned by Edmunds in Suffolk and four Morrells family trusts. Fuller. Smith and Turner in London - as proof that a good brewery with good the chain of 132 mainly tenbrands and good pubs can anted pubs, which would buck the trends in a declining beer market.

paign for Real Ale.

The two breweries that Oxford family company that be brewed elsewhere. provided TV's Inspector ple, and the Langham home in Rutland of Ruddles, which

1970s real ale revolution. had been run by six generament company. Mr Cannon, who now lives in the US, has made a fortune from pub companies in the UK, including Magic Pub and The Ambishus Pub Company.

put the business up for sale after a strategic review by PwC. As a result Margie Eld. 76, became the last member of the family to serve the "No one can build up a group, quitting the board at the end of June after 54 years. She said at the time that her side of the family, which has 33 per cent of the

The new owners said the brewery was unviable, while keep the Morrells name, had suffered from a lack of investment. The beer brands closed were Morrells, the might be retained, but would

Morland, the Thames Val-Morse with his favourite tip- ley brewer best known for Old Speckled Hen, bought the Langham brewery at the was in the vanguard of the end of 1997 along with the Ruddles brand name. After Morrells, which until July failing to find any brewing contracts, it announced the tions of the same family, was closure in April, at the same bought by a new company time that Whithread put up mainly owned by Michael for sale its breweries at Chel-Cannon through an invest-tenham, producer of Flowers, and at Castle Eden, Durham businessman who County Durham, the producer of Castle Eden ale

Mike Watts, chief executive at Morland, rejected any stituency of Tony Blair, the

The board had decided to suggestion that too little time had been devoted to finding a brewing alternative for Langham. "We spoke to all the major brewers and several brands, and I have been taking it in the neck for six months from the City. which was asking why we had kept it open," he said at the time.

However, Camra maintains that neither the Langham nor Morrells closures were necessary. "The decisions had nothing to do with their decline or failure as breweries," Mr Protz maintains. And he continues to believe that the regionals can prosper if they concentrate their effort on cask ales and do not try to imitate the big national groups.

Cask ales have had their ups and downs since the 1960s, he explains, first falling against carbonated keg beers, then against lagers, and most recently against nitro-keg beers. "But there is a big underlying support for cask ale, and beer drinkers will always go back to it." Such words are music to

stepped in to save Castle Eden by buying it from Whitbread for £3m. The brewery, which is in the con-

the ears of David Soley, the

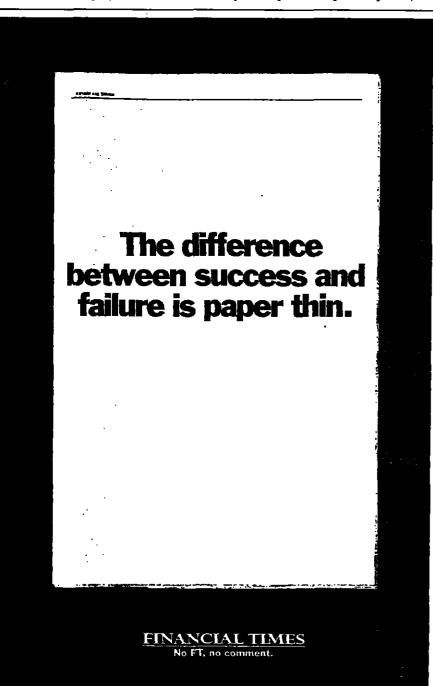


drinkers will be cheering on breweries open - unless it

by Vaux, which has put them up for sale following a decision to concentrate on stare into the bottom of their non-executive chairman glasses, the outlook remains whose younger brother, Frank, is leading the bid, In the north-east of made it clear last month England, Sunderland beer that he wants to keep the

strated that not to do so will raise many millions of

Meanwhile, if Wolverhampton & Dudley were to succeed in its £264m hostile bid for Marston, Thompson & Evershed, the combined Midlands group would have three breweries. Cynics would be entitled to ask



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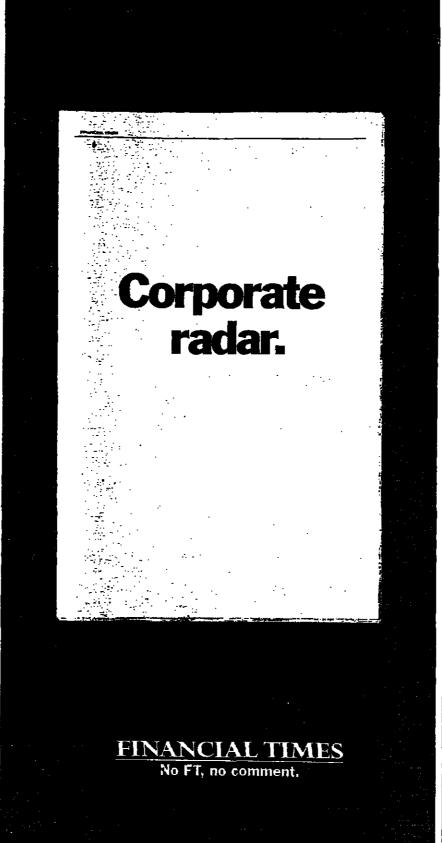
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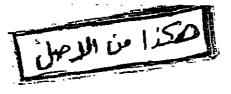
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LIMITED) AND IN THE MATTER OF THE PRODUCT PROBLEM TO THE BOOK COMPANY OF PROPERTY IN 12 DECEMBER 1981.

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NEWS DIGEST TERED SURVEYING utt & Parker buys el and leisure riva

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IIIts Hungarian stake

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EMM, DING

to oust Tay directors

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PARIBAS Thinking beyond banking

By Mark Mulligan in Santiago

The detention in London in

didn't quite make it around

the corner to the Santiago

While the news from Lon-

don_was sparking riots and

demonstrations in the

treets and opening danger-

ous fissures in the delicately

balanced coalition govern-

of Chile's leading 40 stocks

was trying to take heart

from developments in the

US, where the IMF was ham-

mering out details of its

\$41bn rescue package for

Brazil, Latin America's most

A week after the Pinochet

detention, the index had

added 2.83 per cent to earlier rises on the back of central

bank interest rate cuts and

was on course for a 9.56 per

cent improvement for the

The market continued to

climb throughout November,

but no amount of good news

could prevent what has

proved the worst year on the

Santiago Bolsa since the

The benchmark IPSA

global recession of 1981.

mportant economy.

month_

ment, the main IPSA index

stock exchange.

France plans bond market reforms

26

France is to modernise its bond markets this year to make them more attractive to borrowers and investors following this week's successful launch of the euro.

Individual investors from all euro-zone countries will be able to buy inflationpart of the reforms. These instruments, introduced last year, were accessible only to institutional investors such as insurance companies and pension funds.

The finance ministry is also reforming the commercial paper and medium-term note markets, in which companies raise funds for short and medium-term durations of between one month and

The new legislation, which was published yesterday in the government's official journal, aims to "combine flexibility and efficiency in the market, and a high degree of transparency for investors", the ministry said. France has introduced a series of reforms in recent years to increase the attractiveness of its financial mar-

to become the euro-zone's dominant financial centre. Although Germany has the advantages of playing host to the European Central Bank and having larger and

kets ahead of the launch of

the euro. Paris has been in

competition with Frankfurt

France has been faster in implementing reforms, financial analysts say.

Financial institutions. whose borrowings were subwill be allowed to issue certificates of deposit (CDs), one of the most flexible instruments used by companies to raise short-term funds. Issupaying a variable-rate coupon will also be allowed.

Other measures include opening the market to foreign banks, which will be able to issue CDs denominated in euros as well as foreign currencies. This should make the French market "open and competitive, and will reduce financing costs for companies", the government said.

Some €6bn (\$7bn) of inflation-linked government bonds will be issued this year as part of the treasury's €80bn borrowing programme. Borrowing is down 14 per cent from last year's €93bn, mainly due to reduction of the budget deficit.

Issuance will consist of roughly €45bn of OATs bonds with maturities of seven to 30 years - and €35bn of two and five-year BTANs, with the average maturity of outstanding debt remaining within the target range of 6 to 6.5 years.

The treasury also said its cost of borrowing had fallen. in 1998, to 4.07 per cent on BTANs, from 4.36 per cent a

Chinese banks may form bad loan units

commercial banks may cre- cent of the loans are unreate special institutions to take on loans that have gone bad, AP Dow-Jones reports

The China Daily Business Weekly said China Construction Bank, one of four government-backed commercial banks, was establishing a separate arm to assume non-

No other details were provided, but the paper said Beiand other banks were expected to follow suit.

However, an official with the China Construction Bank said it was still uncertain how the institution

would handle bad loans. The People's Bank of China, the central bank, has estimated about 20 per cent of the banking industry's assets can be considered non-performing, yet central bank chief Dai Xianglong

Amethyst Funding Corporation

BOSTON UNIVERSITY

BRUSSELS

USD 200,000,000 mortising Floating Rate N due 2003 or the interest period 4º January, 1999 k "February 1998, the Notes will carry a tale of Interest of 5.37734 °- per armum.

Some of China's state-owned has said only about 6 per

coverable. Officials at the People's Bank of China have said they are considering an Resolution Trust Corp, which the US government set up to transfer assets of insolvent savings and loan associations to financially sound institutions in the

As China's state banks ernment spending on infrastructure and construction projects, banking executives are looking for ways to carve out old problem loans.

The recent collapse of Guangdong International Trust & Investment Corp. an arm of the provincial government, brought new calls within the central bank to move quickly towards setting up an institution for bad loans.

DLJ to launch euro-zone trading

By Clay Harris, Banking Correspond

Jenrette, the US investment bank, is today set to launch its euro-zone equities business, coinciding with the first trading day of the single currency.

The opening of trading which also applies to Hong Kong-based business for Asia excluding Japan, marks the end of the first phase of expansion into non-US equities by DLJ, a bank indirectly controlled by Axa, the French insurer. It underlines DLJ's convic

tion that it can differentiate itself in a crowded market. Hector Sants, head of international equities, said: "Investors still don't have the global and regional research services to meet all their needs. This is very much going to be a stock idea-driven product."

As such, it contrasts with the emphasis on a quantitative approach by the other significant debutante in the sector, Germany's Commerz bank Global Equities.

Mr Sants said he expected large institutional investors increasingly to undertake their own quantitative and macro-economic research. He added: "People will always be looking for good DLJ will be building on its

position as the leading seller of US equities into Europe. All international equities staff will report to Mr Sants in London, but will work in co-operation with their sectoral counterparts in the US. Since March 1998, when

Mr Sants' appointment was announced, DLJ's international equities staff has grown from 10 New Yorkbased employees to a total of 220 in London, New York and Hong Kong. Mr Sants, head of equities

at Union Bank of Switzerland in London before its merger with Swiss Bank Corporation, joined in September. The number of research staff is expected to rise from 50 to 75 in 1999. "Clearly, we're very happy to have missed the period of market turbulence," he said, not just in trading terms,

but also because it had research will be regionally based. After today's openings, which add to DLJ's activities in other emerging markets and Europe outside the euro-zone, Japan is its

"Ultimately we do believe we have to include Japanese securities in our product range," Mr Sants said, but added that this would not

By Halg Simonian, Motor Industry Correspondent

As the new president of

Visteon, the world's second

biggest automoțive supplier,

Craig Muhlhauser has

tation in 2000. Delphi's own

initial public offering is due

The process of weaning

Visteon away from Ford

begun under Mr Szuluk

Muhlhauser, who joined

from a senior marketing role

is determined to create a

"shadow" structure of an independent company at Vis-

showing promising gains on its September low of 54.55

EMERGING MARKETS THE SANTIAGO BOLSA HAS SUFFERED ITS WORST PERIOD SINCE 1981

Year to forget for Chile's investo

October of General Augusto Pinochet, the former Chilean More telling was the volume, which at about \$12m a dictator, may have set shockwaves reverberating day was 38 per cent below through the capital's presithat in 1997 and the lowest dential palace, but they figure since 1998.

The picture throughout Latin America was similar, reflecting this year's stampede out of high-risk emerging market shares and into fixed-rate securities. One local broker summed

up: "The IPSA rose

slightly on the last day of trading, but so what? Its 1998 performance was awful." Other market comments tors noted that Santiago's performance, among the worst in the region, served once again to expose structural weaknesses in the market, which is heavily reculated and taxed and unattractive to foreign investors, who prefer the more liquid and less-restricted Chilean ADRs traded in New

Reforms, including the virtual elimination of the encaje, or lock-in, which requires foreigners to leave a percentage of all investment on deposit for a year, are expected to loosen the market.

However, this year's relaxation of the percentage of index closed on Wednesday, funds the country's \$31bn private pension system can invest abroad has begun to the last day of trading, at 77.37, down more than 26 per

1998, with only 11 of the panies posting year-on-year gains. The decision by Ener-

scake in knossa (mie, they mist at the provided a distraction in the tors should stime more on second half of December.

Given the company's the intal number, which he heavy weighting in the predicts will continue index, trading activity around the sale probably saved the IPSA from total humiliation. However, the drama was not enough to pull back the heavy losses

Local financial news

throughout the first half of

The Central Bank has

eased Chile's base interest rates four times since Octo-

ber in response to a sharp

9.7 per cent year on year in the third quarter - which

Artémis in talks

retailing group based in life insurance companies

the holding

ompany of the Printemps

France, is in advanced talks

to acquire Japan's Aoba Life

Artemis is understood to

have offered a purchase

price for Aoba of Y40hm to

Y50bn (\$355m-\$443m), if the

deal goes through, it would

foreign entry into Japan's

Last year. GE Capital

agreed a deal with Toho Life

places Toho under GE Capi-

life Financial has also agreed

to acquire the operations of

The deals represent a sig-

Daihyaku Life Insurance.

reports said yesterday.

next year.

Artemis.

the shares suffered earlier in fall in domestic demand

the year. Market darling CTC, the current account and trade

low in September, but enum.
1996 min SE per cent of its There were very few star 1998 year performers on the Bolsa in market described it as the year to forget but the news is not sis, the electricity distributor all bad; according to some 32 per cent owned by Spain's market watchers.

Endesa to kell its 25 per cent; Lesons no Spairez, econostake in Endesa Chile, the mist of Farristo Vial, Chile's in Endesa Chile.

This domestic contraction helped offset the effects of the collapse in the price of copper, Chile's principal

Annual inflation is expected to be less than 5 per cent, against 6 per cent at the end of 1997, and the value of the peso against the US dollar had weakened from 436.5 in December last year to 4735 last week in short, events in Asia,

Russia and Brazil have essisted the bank and the ernment in their efforts to bring spending into line with growth, keep a lid ho inflation and hold the p at more exporter-friends

And the Pinochet factor? "In the short term, it's not affecting anything," said Mr on for another year in London, in the long term, some government projects could

cal crisis sparked by the detention of General Pinochet could delay legislation es, as well as interrupt plans for the privatisation of

EURO TV CREWS WATCH RETAILERS CASH IN

French quick to capitalise on launch of new currency

French retailers and consumer-oriented industries were quick off the mark this weekend in an attempt to capitalise on the euro as a marketing tool. Michel-Edouard Leclerc.

ioint chairman of the E. Leclerc supermarket chain, was surrounded by television cameras when he paid in euros for groceries at one of the group's stores mear Paris, on Saturday morning. By the end of the day, another 46 customers had paid in euros at the that had issued the card, supermarket, accounting for claims was France's first Redoute group, only two cus-As in Europe, Asian The average shopper bought

€64 (\$75) worth of goods. However, Mr Leclerc said a large number of shoppers were asking questions about bank accounts in francs. TV crews and other jour- vain all day Saturday to nalists were also present at receive a euro-denominated the music and book retailer Virgin Megastore on the

Yves-Thibault de Silguy. European monetary affairs commissioner, paid €141.94 by cheque for a few CDs. Virgin said some 20 customers had paid in euros that day, including tourists from countries outside the euro-

Some very dedicated TV camera crews were also pres-Romain restaurant, where a customer made a €298.80 debit card payment for a in coming months. meal, which Banque Nationale de Paris, the bank

Other retailers expressed disappointment after seeing wanting to pay in euros.

payment. "We were a bit disappointed to see that nobody district in west Paris, when wanted to pay in the new in euros at 60.46.

the group which has equipped its stores to handle cheques, debit and credit

Mr Leclerc predicted that use of the euro would rise "slowly and progressively" specially near the country's borders where inhabitants are already familiar with cross-border shopping. He forecast that between 3 and 4 per cent of Leclerc customers would switch to the earso. hitherto highly of in coming months. insurance sector.

At FNAC, the cultural goods retailing operation of the Pinault Printemps outlet in Paris where a euro pilot project has been set up. But the group reported

payment possibilities. nificant change in the mar-Even the French post ket environment for Japaoffice, which is not usually a nese life insurance publicity-seeker since it retains a monopoly on most of its activities, will this morning start selling its standard FF13 stamps for first-class mail denominated

industry, if you're not out in

front, you get run over." Mr Muhlhauser believes

new cars, such as the Ford

Focus and Jaguar S Type,

will help to promote Vis

teon's new high-tech prod-

ucts. The Jaguar is the first

car to have a voice recogni

tion system for radio, tele

This high-tech emph

has been underlined by acquisitions. In the past

three months, Visteon has

bought Zekel Innovation - a

US developer of in-car navi-

gation systems — and formed a venture with Pl Technol

ogy, a UK software and tech-

nology specialist.
The overriding goal is to

reach the more demanding

will be spared from restruct-

uring. That involves obvious

stens such as reducing con-

trai staff, moving people into

phone and navigation.

companies, which had until foreign competition.

In addition to strict mar- shortly for approval at its ket regulations, the close board meeting later this historical ties life insurance month.

to buy Aoba Life companies enjoyed with ers and the high investment needed to compete with the large salesforces of Japanese

> which employ thousands of impeded foreign competition in the Japanese market. made inroads mainly in hicrafive but relatively small niche markets, such as the market for cancer insurance

> oped in Japan. liberalisation introduced the strengthening presence

insurance companies. Aoba, for example, was set up by Japan's life insurance association companies to

take over the operations of Nissan Life Insurance, which collapsed in 1997. The life insurance associarecently operated in a martion has been seeking a ket that was virtually free of buyer for Aoba and is expected to make a decision

Cellcom plans IPO

Cellcom Ltd., the Israeli declined to comment on the cellular phone operator, report. Those at Discount plans to issue shares in the Investment Corp, a member US in the first quarter of of the Cellcom consortium. 1999, Reuters reports from could not be reached.

Tel Aviv. pany at \$3.5bn, the Ha'aretz daily newspaper said. It did not estimate the IPO size. The offering will be led by

Lehman Brothers and Goldman Sachs, Ha'aretz said.

U.S. \$125,000,000

- Cellcom, which has about

Cellcom intends to float 1m subscribers, is a consorshares on Wall Street in an tium made up of BellSouth initial public offering that Corp. the Safra banking famwould value the entire com- ily of Brazil, and Discount Investment and its sister company PEC Israel Economic Corp.

. The company competes with Pelephone, a joint venture between Bezeg Israel Officials. at Cellcom Telecom and Motorola Israel.

Commonwealth Bank Australia Commonwealth Bank of Australia ACN 123 123 124 (successor in law to the State Bank of Victoria)

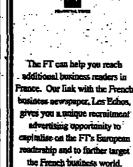
10-Year Extendible Floating Rate Capital Notes For the six months 31st December, 1998 to 30th June 1999 the Notes will carry an interest rate of 5.40016% per annum with an interest amount of U.S. \$271.51 per U.S. \$10,000 Note. The relevant interest payment date will be 30th June, 1999.

Listed on the London Stock Exchange

Bankers Trust Company, London

A.I.C Corporation

US\$300,000,000



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orther details picase telephone

Toby Finden-Crofts on

Notice is hereby given that the

Rate of interest for the interest period Jenuary 4, 1999 to April 6, 1999 has been fixed at 5.22609% and that the interes payable on the relevant interest Payment Date April 6, 1999 against Coupon No.6 will be US\$13.36 in respect of US\$1,000 nominal of the Notes espect of US\$10,000 nomina Global Agency and Trust Services. CITIBANCO

how the transactions in At a Continent store, part euros would affect their of the Promodès supermaronly significant gap.

INTERVIEW CRAIG MUHLHAUSER SETS OUT HIS AGENDA FOR FORD'S PARTS OFFSHOOT

Visteon chief reshapes its goals

also of Interest of \$3.77.50 *e per annumber coupon Aprouris per USD 307442.97. Note will be USD 3473.22-squable on 1° February, 1993. The *ancignal experience Amounts per original USD 10,000,000 Note is USD 18,638.67 IBJ (Luxembourg) S.A. Agent Sank dated : 4 January 1996

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Barcelona

C.A. La Electricidad de Ceracee SAICA-SACA U.S. \$209.654.000 contacting for each money a strong contacting for each money as \$12.512.549 per U.S. \$1.000 nonemal about of which U.S. \$79.27 money as \$2.512.549 per U.S. \$1.000 nonemal about of which U.S. \$79.27 money and account of which U.S. **OCHASE**

C.A. La Electricidad de Caracas SAICA-SACA U.S. \$39,836,000 In accordance with the province of the Goods nection in hearity great with to the interest Period from December 31, 1996 on Marci 31, 1996 the Bereit will gony on Interest Rel of 8,577%, by arount. The interest Section on the relevant interest payment data March 31, 1999 will be U.S. 513.44 or U.S. 51,000 procipal mishors.

Nafin Finance Trust II U.S.\$129,880,000 Floating Bate Notes due 1999 for the Interest Period 31st December 1998 to 31st Merch, 1999 the Notes wil 2019 a Rate of Interest of 7,500169 per annum. The Compon Ameuna per original U.S. \$10,000 Note will be U.S. \$1,50 payable on 3ist

already prepared an agenda for his first 100 days. Mr Muhlhauser, who toined Ford Motor's parts offshoot in July 1997, took over on January 1 from Charlie Szuluk, the Ford executive who oversaw Visteon's change from captivity to partial independence from Ford in September 1997. Since then, Visteon has blitzed the automotive world with its new name and logo. The change, like a similar metamorphosis at Delphi, the General Motors parts LG ELECTRONICS INC subsidiary trying to become less dependent on its parent. will probably lead to a flo-

Notice to the holders of outstanding US\$69,210,000 3.25% Convedible Bonds Due 2006 3.27% Conveyons some this guest NOTICE IS HERESY GIVEN to the holders of the Bonde that, as a result of the leave by the Company 21,500,000 contensor stock of the Company, the strating Conversion Price per share of preferred stock of the Company has, pursuant to the consistence of the Tourd Dead provisions of the Trust Deed nstituting the Bonds, been edjusies m KRW17,493 is KRW16,543 with LG Electronics IX CITIBAN(O'

teon as soon as possible.

He shares Mr Szuluk's target of reducing Visteon's sales to Ford, once virtually cautious predecessor, however, Mr Muhlhauser is willing to give a firm date of That means lifting sales to third parties to about \$5bn a year, based on Visteon's estimated turnover of about teon's new targets in an "What distinguishes our air



New contracts beyond Ford are already helping to the revised corporate strucpropel Visteon's turnover from \$16.4bn in 1997 to \$17.2bm in 1998 and a forecast \$18bn in 1999.

Mr Muhlhauser predicts much of the increase will technology and processes come from Europe. After activity on to Visteon's manspending his first year at Visteon creating a marketing structure to underpin its planned sales push, he reck-ons about \$26bn worth of ment and servicing funcshould accelerate under Mr new car contracts will come tions that barely existed due in Europe this year. Winning a disproportion-

at United Technologies. He ate share of that is the only way Visteon can become less dependent on Ford. "Significantly more than 20 per cent of new business must be from third parties," he says. Mr Muhlhauser believes Visteon has the potential to its only customer, to 80 per meet such targets. This year, he thinks ford's preference cent of turnover. Unlike his only half its \$2bn of new for being a "fast follower". business came from Ford. rather than an outright innolifting non-Ford sales to nearly 12 per cent of turn- Visteon put insufficient over - about double the 6 per cent proportion of 1997. Mr Muhlhauser's confidence over meeting Vis- with the new structure.

ture he has helped to shape. This has included grafting a worldwide marketing. sales and service network and an expanded advanced

The expanded marketing side will be responsible for when Ford was virtually Visteon's only customer. Meanwhile, the reinforced research and development side should provide a com-

emphasis on innovation and new technology in the past. Matters should change

financial standards required if Visteon is to attract outside investors. Mr Muhlhauser wants to raise sales by at ufacturing base. least 7 per cent a year, operating margins to 5 per cent of turnover, and achieve a 10 per cent return on assets. This means not even Vis teon's manufacturing base

the field and thinning out petitive edge in technology, management layers. But "We were a manufacture: manufacturing - notably in geared to meet Ford's Europe - is also in his sights. Mr Muhlhauser notes requirements," says Mr Muhlhauser. In particular, the location of many Visteon plants next to Ford factories is probably not ideal for a company trying to win more vator in the industry, meant

business from third parties. "Our objective is to have more and more of the financial muscle to take on more of the risk, as vehicle-makers seek to devolve more of their responsibilities to sup-\$25hm by early next century. industry he admits is "over- conditioners from those of, pliers," he says.

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MARKETS IN 1998

THE YEAR IN REVIEW

ROLLER-COASTER YEAR

Sentiment shifts to low inflation and low growth

It was a year when it was pretty hard to sustain the belief that markets are perfectly rational. Volatility increased sharply and investors seemed to undergo at least two 180 degree changes of view of the prospects for economies and corporate

For the developed markets at least, the first half of the year might be dubbed the "Goldilocks phase" and was largely a continuation of the bull run that began in 1995. The US and European

economies were "just right", like Goldilocks' porridge, growing fast enough to gencorporate profits growth but not so fast as to prompt inflation. The bearish implications

of the Asian crisis, which had caused sharp falls in equity prices in the fourth quarter of 1997, were largely forgotten. Indeed, Asia's woes, by applying a brake to when it might have overheated, were seen as posttively beneficial.

During this period, equity markets in the US and Europe reached new all-time highs, with the DAX in Frankfurt and the FTSE 100 in London both passing 6.000 and the Dow Jones Industrial Average reaching the

The second phase of the year really started in July Reserve, hinted that interest of the US hedge fund while, the spread paid by tries, meeting some defini-



rates might need to rise to Long-Term Capital Managehead off inflationary pres- ment prompted a massive ernment debt, increased

default by Russia, talk of with the yields on the for-President Clinton's impeach- mer dropping to levels not ment and the near-collapse

flight towards safe havens. Government bonds and roof fell in as the near- equities parted company.

sharply. Analysts started to 1999 and of a financial colseen for a generation. Mean-

corporates, relative to gov-

Share prices fell more than 20 per cent in many coun-

opposed to the perceived

strengths and weaknesses of

into stock selection," says

Christopher Palmer, a global

emerging markets principal

agement arm of National

This is not to say that a

study of historic earnings

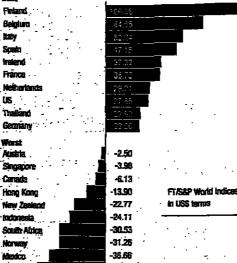
figures is necessarily the

Westminster Bank.

"Much more effort is going

countries and regions.

Best and worst performing markets in 1998



despite a final cut in conti-

nental rates to 3 per cent as

the 11 single currency coun-

entirely convinced by this

recovery. Bond markets con-

tinued to point to the possi-

bility of global recession in

1999 while the spread of cor-

porate over government

bond yields indicated con-

tinuing investor nervous-

in retrospect, the markets

tries prepared for the intro-

duction of the euro.

tions of a bear market, and some bourses lost all of their first half gains.

The third phase of the year was again sparked off by the Federal Reserve as it moved to cut rates twice in October, to head off the financial crisis and potential economic slowdown that had loomed large in the early

Stock markets did another rapid about-face and Wall Street was able to reclaim the all-time highs set in the

spent much of the year coping with the implications of European markets recova shift to a low-inflation. ered the bulk of their losses. but remained off their best, low-growth era. That shift

of valuation between equities and bonds, with the latter being relatively uprated that inflation is defeated and the former downrated because of the danger of a profit squeeze. Company managements

seem to recognise this problem as well - hence the wave of mergers that punctuated the year, a trend which slowed only during the three months of stock market decline. At a time when it is difficult to generate volume growth, mergers offer one route for improving margins - by offering an opportunity to cut costs as well as to eliminate a com-

Those mergers will have to be successful in enhancing profits if they are to sustain the global stock market advance since, by the end of the year, they were mainly in the form of all-paper deals; in other words, they were not injecting new cash

But earning superior returns in 1998 owed much to investors' ability to spot successful companies and the countries where takeover activity would be most active. Finland, where dollar-based investors more than doubled their money. owed much of its success to the performance of Nokia. the telecoms group, which claimed that it became the world's leading supplier of mobile phones. Meanwhile. Belgium, the second best performer of the year, was

may imply a different basis activity, particularly in the

and curo-ze

The final phase of single currency convergence. which prompted substantial interest rate cuts in previously high rate countries, fuelled the strong rise in Italy. Spain and Ireland. .

Meanwhile Wall Street despite a volatile perfo mance, produced a return of more than 20 per cent for the fourth successive year, an

Among the FT;S&P World Index countries, the losers of the year, as in 1997, were largely in the emerging markets. A last-quarter recovery in Asia (particularly in Thailand, which surprisingly gained nearly 22 per cent) meant that the big declines were concentrated in Latin America. The re-election of President Cardoso and an IMF refinancing package still left investors fairly anxious about the prospects for Brazil (down 44 per cent) while Mexico fell 37 per cent.

Indonesia's poor showing was entirely due to a corency decline - the mark actually finished up on the year in ruputh terms.

The problems of emerging market economies have caused developed bourses to wobble twice in recent years - in the autumn of 1997 and for 1999 will be whether Wall Street and Europe face their they do, that might be a rather more difficult hurdle the centre of much corporate

EMERGING MARKETS

Investors nurse a global hangover Technology stocks prove and you in t

By Michael Peel

investors in emerging markets spent 1998 sobering up. Heady thoughts of rapid returns were displaced by a belated realisation that the risks more often than not outweighed the potential

may have ended 1998 nurs- groups still have a long way ing a sense of betrayal as to go to restructure. well as a headache. A year that started promisingly with a 6.7 per cent firstemerging market composite out very badly.

Indonesian President to join the euro-zone. Suharto in May, and intensi-Russia's default on repaydomestic debt.

asset class," says Timothy Love, head of global emerg-Société Génerale European Emerging Markets.

Add to that currency weaknesses, depressed commodity prices and slowing economic growth worldwide. that emerging markets state than they began it.

rally, the IPC Composite alone, Index fell 24 per cent in 1998

and underperformed the FT;

about one-third in US dollar

grief. The best IFC index perwhich rose 92 per cent in dollar terms over the year, thanks to moves to reform ewards. the economy – although the Some of those who lost out country's chaebol industrial

ranked by the IFC as an emerging market, even quarter rise in the IFC though it is due to join the European Monetary Union investable index - turned in 2001, saw the second largest gain - up 83 per cent in For emerging market fund dollar terms - thanks to a managers everywhere, the strong rally after the governtrouble began with the fall of ment spelt out its intention

fied over the summer after Russia - hardly surprising. ments of interest on its where the market fell 83 per The Russia crisis has ond worst, down 61 per cent. caused a major contraction—as it grappled to put in place in the [emerging market] an international economic rescue package.

For some, events last year ing market strategy at confirmed that emerging markets are a poor investment per se.

Chartered Financial Analysts found that between and it is scarcely surprising tion of the IFC Composite index and the S&P 500 index produced lower returns than investing the same amount Despite a fourth-quarter of money in the US market

Others say that the wari-

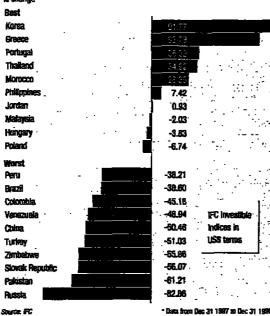
S&P World Price Index by

Greece, which is still

The worst performer was

given its economic crisis cent. Pakistan was the sec

A study for the Institute of



kets, and the resultant lack stock characteristics as of liquidity, has created unprecedented opportunities

to make easy money. Even when investors do return in numbers, liquidity is likely to be lower than it was a year ago. Analysts say the steep decline across at Gartmore, the fund man-1975 and 1995 any combina- emerging bourses has put many smaller companies out of business, increasing the dominance of the larger

investment managers are best way to evaluate investincreasingly emphasising ment potential. the importance of making ness towards emerging mar-decisions on the basis of how economic factors such

as currency values and GDP

tional Finance Corporation climbed 44.9 per cent, compared with a mere 8.8 per cent for Latin America.

The reason, say most observers, is that economic prospects in Asia are far better – countries in the region are generally moving out of recession and enjoying strengthening currencles. "Most of the institutional

investors I talk to are more positive about Asia than about other emerging markets." says Kenneth King. managing director of King Street Advisors, part of the State Street Global Alliance. In common with others. though, Mr King says insti-

tutions are likely to remain wary of emerging markets for a while. Investors who thought their fortunes would improve after the Asian economic problems of late 1997 have been proved spectacularly wrong. The lesson of 1998 has

been that domestic and relatively localised crises, such as the Russian loan default, can send all emerging markets down en masse, regard less of the soundness of indi-Events in 1998 have shown vidual national economies

Change

to be the star performers. variations that a profitsbased analysis would fail to Fourth-quarter Interna-

Last year's share price performance charts were figures provide a case in dominated by technology point. While the three main | stocks. Eight of the top 10 geographical regional indi- shares came from either the ces were all higher than at telecommunications or inforthe end of September, Asia | mation technology related Tech shares also walked

which, as a piece of sectoral overkill, has had few precedents. Financials and engineers put up a modest fight but, by and large, it was a case of the rest nowhere. The outright winner in

dollar terms, taking the constituents of the FTSE/S&P World index and weeding out market values of less than \$3bn, is Italy's Olivetti. The group has been transformed into an aggressive telecoms services provider. canable of returning to profits for 1998 after four years of loss-making. The fact that German telecoms leader Mannesmann has a 10 per cent stake has added extra

spice to the shares. Colt Telecom of the UK exemplifies heightened investor perception. The company has yet to make a profit or pay a dividend. It is growing fast and ploughing returns straight back into the business

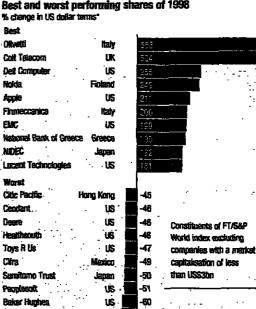
Sales in 1997 were \$81m. Broker targets for this year suggest £200m, rising to £700m for 2000. In a sector riven by deals and changing in shape almost daily, the shares have also been supported by takeover premium. Dell Computer and Apple of the US have ridden up on the internet-led boom for home personal computers

last year helped soften slow-ing US volume. Dell's is essentially a marketing success story with quality products, sold aggressively "off the page" through magazines. Apple owes more to a return to niche market leadership following rejuvenated manage-

Europe of around 20 per cent

Telecoms equipment group Nokia, the pride of corporate Finland with a leading global share in the mobile market, managed to retain its stock market status in spite of a worrying wobble in December following a shock profits warning from Swedish rival Ericsson. EMC is the leader in US

data storage where analysts point excitedly to 30 per cent earnings per share growth over the past five years and talk confidently of the trendBest and worst performing shares of 1998



line being sustained for the strains also hit personal softforseeable future. Finmeccanica breaks the techs mould, weighing at sixth uring and boosted by its involvement with the Eurofighter project. The company, 62 per cent owned by the Italian government, is in the process of streamlining its huge debt. Full privatisa-

tion is widely expected within three years. Given that Japan, like most of Asia, did not share in last year's equity boom, NIDEC's position at number seven is a tour de force. The group has a 70 per cent share of the global markets for small-scale computer very big customers, notably

National Bank of Greece still carries the scars of its heritage, but is being rapidly remoulded for a role in Greek banking when European monetary union membership comes round in 2001. Even so, a big part of last year's share price momeninterest rate convergence. Creeping in ahead of

Dutch insurer Aegon at number 10, Lucent Technolobetter positioned US telecoms producers for the brave new world being opened up by the converging voice and data equipment market.

Among last year's backmarkers, the most visible theme is that six are US companies. Competitive pressures blew up around Healthsouth, a rehabilitation

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ware leader. Peoplesoft. Deere has had to struggle against farm belt recession. ties vying with livestock to see which can hit fresh lows. Deere's farm equipment business has faced collapsing volumes. Much the same trading patterns beset Baker Hughes' oil equipment operations, given that global oil prices fell to their lowest level for more than a decade.

Toys R Us was hit by a lack of blockbuster new products and a radical cus tomer shift in the US away 2 from traditional to electronic toys. Cendant, a direct marspindles and a number of tion, was rocked by an accounting scandal and damaging boardroom battles.

Hampered by regional currency weakness. Latin America could not escape the bot! tom end of the charts. The Mexican peso lost some 18 per cent against the dollar last year and Cifra, the counintractable integration headtum stemmed from Greek aches after linking up with US giant Wal-Mart which took a controlling stake.

Petrobras had to grappie with a softening Brazilian real, unexpected government payments which dramatically cut third-quarter earts ings and the slide of internator tional oil prices.

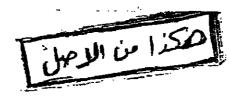
China's economic difficulties are represented by Citic Pacific, the blueblood among the big Hong Kong-based investment vehicles. A 20 per cent stake in Cathy medicine group. Trading many problem areas.

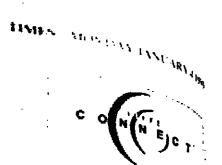
World markets at a glance in 1998

| Country | Index | Dec 31 1997 | Dec 31 1998 | Change | % change |
|----------------|-------------------|-------------|-------------|----------|----------|
| Argeotina | General | 687.50 | 430.06 | -257.A4 | -37.45 |
| Australia | All Ordinaries | 2616.50 | 2813.40 | 196.90 | 7.53 |
| Austria | ATX | 1294.94 | 1120.77 | -174.17 | -13.45 |
| Belgium | Bel 20 | 2418.42 | 3514.51 | 1096.09 | 45.32 |
| Brazili | Bovespa | 10,196.00 | 6784,00 | -3412.00 | -33.46 |
| Canada | TSE 300 | 6899.44 | 6485.94 | -213.50 | -3.19 |
| Chille | IGPA Gen | 4794.41 | 3994.75 | -1199.66 | -25.02 |
| China | Stranghar B | 55.68 | 28.71 | -27.17 | -48.62 |
| Colombia | 186 | 1431.57 | 1109.20 | ~322,47 | -22.52 |
| Czech Republic | PX 50 | 495.30 | 394.20 | -101.10 | -20A1 |
| Denmark | Copenhagen SE | 675.98 | 637.52 | -38.46 | -5.69 |
| Egypt | Calro SE | 359.8S | 382.77 | 22.92 | 6.37 |
| Fedend | Hex General | 3302.26 | 5564.87 | 2262.61 | 68.52 |
| France | CAC 40 | 2998.91 | 3942.66 | 943.75 | 31.A7 |
| Germany | DAX | 4243.69 | 5002.39 | 752.70 | 17.71 |
| Greece | Athens General | 1479.63 | 2/37.55 | 1257.92 | 85.02 |
| Hong Kong | Hang Seng | 10,722.79 | 10,048,58 | -674.18 | -6.29 |
| Hungary | Bux | 7999.10 | 6371,40 | -1627.70 | -20.35 |
| india | BSE Sensitive | 3858.98 | 3055.41 | -803.57 | -18.50 |
| ladonesia | Jakarta Composite | 401.71 | 398.04 | -3.67 | -0.91 |
| ireland | ISEO Overall | 4053.80 | 4995.22 | 942.02 | 23.24 |
| knel | TA 100 | 290.96 | 299.89 | 8.93 | 3.07 |
| Halv | Comit | 1053.1B | 1486.99 | 433.81 | 47,19 |
| Japan | NBKBI 225 Average | 15,258,74 | 13.842.17 | -1416.57 | -9.28 |
| lordan | Amman SE | 168.33 | 166.79 | -1.54 | -0.91 |
| Malaysia | KLSE Composite | 594.44 | 588.13 | -B.31 | -1.40 |
| | &C | 5229.35 | 3958.66 | -1269.69 | -24.28 |
| Mexico | | | | | |
| Morocco | CASA | 667.52 | 803.68 | 136.16 | 20.40 |

| HUDIETIANUS | CR2 Vit Quale | 018,00 | /34_/U | 110,90 | 192/3 |
|--------------|-----------------------|-----------|-----------|----------|--------|
| New Zealand | Cap. 40 | 2314.91 | 2064.97 | -249.94 | -10.80 |
| Migeria | SE All-Share | 6440.51 | 5680.06 | -760.45 | -11.81 |
| Horway | Osto SE | 1273.61 | 934.16 | -339.45 | -26.65 |
| Pakistan | KSE-100 | 1735.82 | 945.24 | -790.58 | -45.55 |
| Pers | Lima General | 1794.10 | 1335.88 | -458.22 | -25.54 |
| Philioplass | Manila Composite | 1869.23 | 1968.78 | 99.55 | 5.33 |
| Poland | Wig | 14,668.00 | 12,795.60 | -1872.49 | -12.77 |
| Portogal | BML General | 3781.31 | 4794.71 | 1013.40 | 26.80 |
| Ressla | RTS | 396.86 | 59.39 | -337.A7 | -85.03 |
| Singapore | Staits Times | 1507.65 | 1392.73 | -114.92 | -7.62 |
| Slovakia | Sax | 182.48 | 94.0 | -88.48 | -48.49 |
| South Africa | JSE All-Share | 6202.31 | 5430.48 | -771.93 | -12.44 |
| South Kores | Korea Composite | 376.31 | 562.46 | 186.15 | 48.47 |
| Spain | Madrid SE | B32.55 | 867.80 | 235.25 | 37.19 |
| Sri Latelica | SLSE | 702.20 | 597,30 | -104.90 | -14,94 |
| Sweden | Affaiseirliden | 2999.86 | 3314.67 | 314.81 | 10.49 |
| Switzerland | SM | 6285.50 | 7160.70 | 895.20 | 14.29 |
| Tahwan | Weighted | 8187.27 | 6418.43 | -1768.84 | -21.60 |
| Thelland | Banglook SET | 372.69 | 355.81 | -16.89 | -4.53 |
| Torkey | BMRS National 100 | 3451.00 | 2512.64 | -938.36 | -27.19 |
| <u>uk</u> | FTSE 100 | 5135.50 | 5882,58 | 747.08 | 14.55 |
| | FTSE All-Share | 2411.00 | 2673.92 | 262.92 | 10.91 |
| US | Dow Jones | 7908.25 | 9181.43 | 1273.18 | 16.10 |
| | S&P Composite | 970.43 | 1229.23 | 258.80 | 26.67 |
| Venezuela | IBC COMPOSE | 8656.04 | 4763,47 | -3892.57 | -44.97 |
| Zimbakree | ZSE Industrial | 7007.84 | 8408.40 | -530.44 | -8.5 |
| World | FT/S&P World to terms | 253.86 | 307.02 | 53.16 | 20.94 |

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BONDS

*UK and euro-zone show best returns

By Edward Luce. Capital Markets Editor

Conservative investors reaped dividends last year developed western markets with leading western government bonds providing by far the best returns in the global fixed-income market

UK gilts led the pack. according to Salomon Smith Barney's world government bond index, providing a return of over 20 per cent in dollar terms. However, the UK was followed closely by all 11 euro-zone currencies, yielded returns ranging from 18 per cent to 20 per cent.

The US Treasury market as performed well, yielding most 10 per cent. But foreign investors in the US Treasury market fared less well owing to the dollar's steep depreciation against the D-Mark and the Japanese yen in the third quarter. It vielded just over 2 per cent in D-Mark terms and minus 1:32 per cent for the yen investor. The index assumes the investor is unhedged. . In contrast, anyone who invested in a basket of emerging market sovereign bonds at the start of the year would have had their fingers

burnt. The return on

J. P. Morgan's emerging mar-

ket bond index was in excess

of minus 10 per cent. The was also accelerated after year was thus characterised the near-bankruptcy of Long by sharp divergence between by several factors.

First, European government bond yields continued to converge towards the yield on the benchmark 10year German bund. This accelerated after bilateral currency conversion rates were fixed at the summit of European leaders in May. Some believed the conver-

gence rally actually overshot with Italian government yields dipping below the Gerbefore Christmas (for the first time in history). The investor in Italian BTPs made gains last year of almost 20 per cent in dollar cent in dollar terms but only terms and over 11 per cent in D-Mark terms. This followed equally impressive returns in the preceding two years. Second, extreme volatility in global financial markets

encouraged investors to seek out the safest havens for their money and this meant either cash or AAA-rated government bonds.

Term Capital Management the performance of the in late September. The first and most obvious ports of and the rest. It was driven call were the 30-year US Treasury and the 10-year German government bond. Both saw yields plumb historic lows in late September and early October. Nevertheless other markets, including

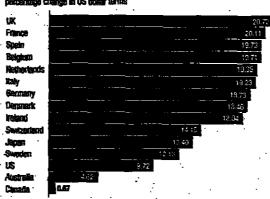
gilts, also benefited from the

panic

Third, factors unique to various markets, notably lik gilts and Japanese government bonds, helped exaggerate the general performance. In Japan, investors had man yield at one point nowhere else to park their money short of taking on a foreign currency hedge and investing in non-yen assets. JGBs yielded over 13 per

> 2 per cent in domestic terms. This was because much of the rally in the 10-year JGB - which had fallen at one point to a historically low yield of just 0.7 per cent had started to unravel by the end of the year.

The ministry of finance's announcement that it would be stepping up significantly This was most visible in its issuance calendar over the aftermath of Russia's the next few months helped decision to default on its push the yield back up to rouble debt in August but almost 2 per cent before Government bonds index - 1998 gains percentage change in US dollar terms



Christmas on fears of oversupply. In the UK, the spread over German bunds narrowed significantly. although not as impressively as euro-zone bonds.

Investor confidence about the UK's prospects for joining the second wave of European monetary union in the next three years sustained strong foreign investor interest in spite of sterling's vola-

Last, and perhaps most importantly, all western economies are displaying strong disinflationary tendencies. Core inflation in the

per cent while inflation in the US remains stubbornly subdued in spite of strong monetary growth. This has reduced expectations of ng-term inflation and thus had a knock-on effect on long-term interest rates.

Although - Japan apart there are no clear instances of falling consumer price indices in the leading econo mies, the possibility of defla-tion is likely to become a theme soon. And, as every investor knows, talk of detla tion is likely to mean ever higher bond prices. The rally in western government

euro-zone has fallen below 1 Russia triggers worst year for debt since 1995

By Khozem Merchani

Russia defined the year for emerging market debt. It was the worst 12 months since the 1995 Mexican crisis and the year ahead could be equally treacherous.

Russia's debt default in August forced a dramatic widening of yield spreads on emerging market debt. Investors retreated and emerging market debt issu-- The J. P. Morgan emerging

market bond index fell 14.5 the best performers, rising suries by the end of 1999. 11.7 per cent; Russian bonds slumped 84.9 per cent.

Emerging markets spreads tina's \$1bn bond, the largest have tightened from a high by an emerging market borof 1,700 basis points over US rower since August; and a Treasuries in September to \$1bn debut bond by Poland's about 1,141 at the year-end. This was the result of tor TP SA, the largest ever improved sentiment after interest rates cuts in the US central European borrower. eased fears of a credit con-

Jerome Booth at ANZ foreper cent on the year, to 138.4. casts a tightening to 600 Polish sovereign bonds were basts points over US trea-Two issues caught the eye, both in November: Argen-

state-owned Telecoms operacorporate offering from a Three factors could upset the rosier outlook: a sharp

interest rates and fiscal beltrenege on external sovereign debt, including its post-1992 eurobonds; and Japan's insipid reforms may continue to hamper recovery in neighbouring economies. Brazil's faltering attempt to enforce its \$41.5bn IMF-designed rescue package poses the most immediate danger to the global economy.

In contrast, South Korea

slowdown in Brazil as high has implemented its IMF reforms. It tapped the capital tightening begin to hurt; markets earlier this year Russia may be forced to with a \$3bn issue, Malaysia is also seen as a recovery story. Last year it spurned the IMF and slapped capital controls in an effort to win currency stability while it reformed its banking sector. Poland, insulated from the Russia fall-out, presents the best prospect in eastern Europe as the government prepares the ground for pos sible Emu entry.

EQUITIES IN 1999

Opinions divided over big investment issues

By Michael Peol

it is telling that one large stockbroker has chosen to illustrate the cover of its investment outlook with the twin masks of tragedy and

The contrast reflects the influence of two unique divergence in investor opinions about most of the big issues that will determine the direction of the world's stock markets in the year puter problem. ahead. Market observers can only agree that the state of the US economy and stock markets will be hugely influential.

Points of contention include the ability to sustain the rally in US and European markets of the past few months and the consequences of global economic

The pessimists are typified by Dresdner Kleinwort Benson, which warns investors that an "Ice Age" is looming. This school argues that equities are over-valued and US company analysts in particular have become far too optimistic in their profits forecasts, making substantial adjustments inevitable. Most macroeconomic strategists also think consensus forecasts for continental

European earnings growth are too high. They say predictions of a rise of about 14 per cent are not realistic in the context of an economic slowdown in

euro-zone countries. However, a significant proportion of analysts remain optimistic about the outlook for western markets. They argue that in the US the economy remains buoyant while in Europe the effects of the growth slow-down have already been priced in. Some houses say equities

still offer good value relative

to bonds. Lehman Brothers.

Europe bonds will only prove a better bet if earnings growth is more than 30 per- zone will be lifted 0.2 percentage points below analysts' expectations.

There are also sharp differences of opinion about the chaos. issues the markets will face next year - the birth of the cure and the the looming impact of the year-2000 com-

The euro's effects are forecast to be mixed for equities, neutral level of 55 per cent, and most observers are unwilling - or unable - to try to quantify them.

The big issue is will mega-caps continue to drive markets

higher

Many think monetary union will drive prices downwards, putting earnings

under pressure. On the positive side, the new currency might stimulate growth via changes in capital flows.

Julian Callow, European economist for Kleinwort Benson Securities, says the think the world's bourses net result could be an increase in the migration of money from Asia to the euro-zone, and a reduction in the movement of capital of the grip of a global ecofrom the euro-11 countries to

effects of the millennium bug. While some expect it to depress market values as its severity becomes apparent, others argue that it will effect on economic growth

for instance, says that in rates next year - Kleinwort Benson's "minimal" forecast is that growth in the cure centage points as companies build up inventories as insurance against electronic

> Most strategists, though, are cutting back their equity holdings. Goldman Suchs, for example has reduced the proportion of equity in its portfolio from 60 per cent to 57 per cent, compared with a and increased its holding of bonds from 30 to 33 per cent.

The broker still expects earnings growth globally. although it thinks return on capital will fall as economies slow. Profits should hold up better in continental Europe. the US than in the UK.

Japan and Asia. A big issue, as Goldman and others acknowledge, is whether the performance of the very biggest companies - or "mega-caps" - will continue to drive stock markets

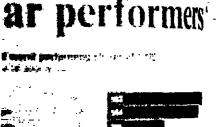
In November, the 20 largest US companies were rated at a premium of 49 per cent to the rest of the market, compared with 11 per cent in April: in Europe the figure rose from 8 per cent to 34 per cent over the same period.

While most strategists will be helped by mergers and acquisition activity, few argue that this will allow world markets to break free nomic slowdown.

For most, the key question Analysts are equally is how long the Dow Jones uncertain about the likely Industrial Average will remain close to all-time highs, defying the gloomy macroeconomic outlook. investors worldwide will be watching carefully for signs have an appreciable positive of laughter or tears on Wall Street.

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Dollar and yen in turmoil

CURRENCIES

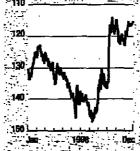
The currency markets in 1998, in the words of one currency analyst, "broke the record books" for volatility, uncertainty and turmoil. It was a year that many, particularly those battle-scarred veterans of the gyrations between the dollar and the yen, will be happy to forget. The calmest area of the

battlefield was in continental Europe. Dire predictions of the euro project crashing in flames, or a last nostalgle speculative attack on the currencies entering monetary union disrupting the approach to the new year conversion deadline, proved erroneous. In May, despite rumours of

revaluations, the central parities of all participating currencies within the exchange rate mechanism (ERM) were taken as the conversion rates for monetary union. Thereafter even when the return of a social democratic government in Germany brought Oskar Lafontaine. the scourge of independent central bankers, on to the scene as finance minister, the euro-zone currencies sailed on towards union .azəlbrasər

Sterling also had a relatively uneventful year, certainly compared with the great bull runs of 1996 and 1997. With the interest rate cycle in the UK topping out around the middle of the year and talk of recession growing, the pound drifted lown from over DM3 against he D-Mark to a more sustainable level of around DM2.80. from where successive interest rate cuts

Applicat the dollar (V per S).



seemed unable to move it. The real excitement was taking place between those two old sparring partners. the dollar and the yen. As Guy Whittaker, the global head of foreign exchange at Citibank, said, "the early part of the year was dominated by continuing and, it seemed, permanent, yen weakness"

The ven sank to nearly Y150 as bad news about the Japanese economy continued to weigh on the cur-As Japanese interest rates

dropped towards zero the dangerous but lucrative game of "yen-carry trades" borrowing low-interest yen, changing them into dollars and then benefiting from the higher returns on dollar assets - gained popularity.

Chief among the participants were hedge funds. It was the near collapse of the Long-Term Capital Management (LTCM) fund, following the devaluation of the Russian rouble, which eventually triggered what Mr Whittaker called the "oncein-a-career" movements of

early October. Growing worries that LTCM was not the only fund in trouble led to a sudden dash to cover these yen borrowings, and with almost the entire foreign exchange market rushing out of the dollar, the consequence was inevitable. The dollar went into freefall, dropping by 20 yen in two days in one of the most remarkable weeks ever on

the foreign exchanges. After that battering, trading in the dollar yen, and in fact in the whole currency market, dried up substantially as many traders closed. their books early ahead of the new year. As the markets limped through the fourth quarter, the main subject of conversation was the unprecedented collapse

in trading volumes. "I have never seen volumes this weak in the 11 years I have been involved in the markets," said Ravi Bulchandani of Morgan Stanley Dean Witter in London. "There is a complete lack of conviction among traders."

The new year is likely to begin as the old one ended. with low volume in the currency markets and few traders wanting to take big bets until the euro has bedded down. But once liquidity returns, the market can start and view the likelihood of it supplanting the dollar, under threat as a reserve currency from a huge current account deficit and continued worries about Brazil. More trading volume may also see a renewed weakening of the yen, propped up by flows in thin markets at

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest example rates of exchange (number) against four key contencies on Thursday, December 31, 1998. In some cases the take is normal, Market rates are the average of buying and selling rates except when shown to be otherwise, in some cases market rates have been calculated from those of toreign contencies to which they are text. 2.110.99 Sheater
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MARKETS THIS WEEK

By Richard Tomkins

The start of the fourthquarter results season is likely to dominate stock market sentiment. Results due on Thursday from Morgan Stanley and Lehman Strothers should give an indication of how the other big Wall Street brokerages have fared amid recent çarket volatility. Stocks may also be

influenced by the prospect of more merger mania amid reports Bell Atlantic is negotiating a \$45bn takeover of Airtouch. Thursday's employment figures for December will be an important indicator of underlying economic trends.

--- 18/12/98 10 years 20 30

Dow Jones Industrial Average - ': Oec

After three successive cuts to pause for breath.

forecasts for 1999 are still recession a realistic euro-zone, still look high. The committee may find some clues in today's purchasing managers survey, which in past

weak manufacturing sector.

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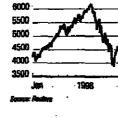
FRANKFURT By Tony Barber

Investors expect a cautious start to the year as the market familiarises itself with tracking in euros. The blue-chip Xetra Dax index dropped almost 50 points on the last business day of 1998, but still managed to finish the year at 5.006.57 points better than expected during

nay emulate Deutsche Bank, and become involved in merger talks with a large

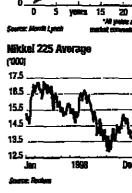
Benchmark yield curve (%)

10 years 20 30



TOKYO By Paul Abrahams The Nikkei 225 index

> economic fundamentals remain grim. Consumer demand remains subdued and capital spending continues to fall. the currency and JGBs carefully this week, and will be looking for any further political developments



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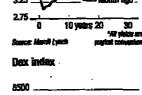
By Philip Coggan The main domestic event of the week will be the meeting of the Bank of England's monetary policy committee. in interest rates, the committee may be tempted

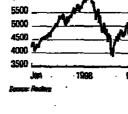
However, economic growth being revised down and with possibility, UK rates of 6.25 per cent, twice those in the months has pointed to a

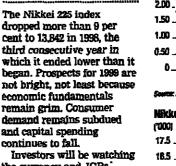
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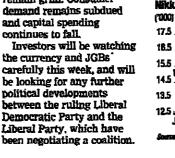
the market turbulence of September and October. Telecommunication companies and banks are likely to attract attention. Dresdner Bank is being watched for signs that it

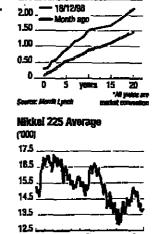
5.25 4.75 4.25 -- 18/12/98 3.25 Month ago .











Benchmark yield curve

(%)

By Alan Beattle

There is no doubt what the defining issue of the next trades and payments sent to week in the foreign exchange markets will be. Market participants' minds will be concentrated on the tentative process of starting to deal in the euro.

But for at least the first week, and possibly much longer, the main uncertainty surrounding trading in the new currency will be technical rather than fundamental.

The apparently smooth process of announcing the conversion rates of legacy currencies into the euro on 31 December may not be matched by banks' ability to convert their own systems. And the market will be alert for the first signs of trades going awry or settlement not being completed.

Special attention will be on trading in London because it is during London trading hours that most euro-related news is likely to

of England's deputy gover-nor, warned last Friday that this week could see failed the wrong banks.

Only when it becomes clear that trading, especially in the interbank market, can be conducted without risk of a counterparty failing to complete a deal, will attention turn to the likely nature of the new currency.

Almost overlooked amid the attention given to the euro, the Bank of England's monetary policy committee (MPC) meets this week to consider another change in UK interest rates. After two 50 basis point

cuts at the end of 1998, the markets have revised down their view of the likely path of repo rates in the UK. At the moment the short sterling curve is pricing in about rates in the first quarter. But with surveys moderating their gloom about prospects reak. may well decide to sit on David Clementi, the Bank their bands for the moment.

| POUN | D SP | OT FO | RWAF | RD A | GAINST | THE | POUN | D | | | | | |
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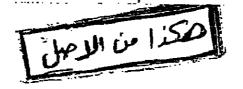
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| | SWISS FR | | | \$6 125,000 +0.0037 | | 4 0.7 | | 10,930 | 25.913 | 1.680 Predox | 6 627'3 1 04 | 0.56 . Calls 0 Put | 1.24 3 20 . Prev. d | | 1.66 al. Cafa 54 | - 10 Puls 201 | ; | | • | |
| | Mer Jun Seo | 0.7299 | 0.7393 0.7453 | +0.0037 | 0.737 | 0.7 | 320 | 1 20 | 384 320 | pe PH | LADELPI | VA SE D-V | MARK/S OF | TONS DA | 62,5 0 0 (5 | per DM | | | | |
| | JAPANESI | E YEY R | TUBES (MA | Yen 12.5m | per Yen 1 | 00 | | | | Strike Price | | Jan | Feb | | Mar | Jan | PKT Fe | b | Mar | |
| | Mer | Open 0.8799 | Sett price 0.8884 | Change +0.0095 | High 0.897 | 4 0.53 | | Est.voi 12,814 | Open Int. 63,420 | 0.595 | | 0,78 0,50 0,29 | 1.17 0.89 0.66 | 1 | 45 17 194 | 0.31 0.51 0.73 | 0.6 0.8 1.1 | 3 | 0.82 1.01 1.37 | |
| | Jun Sep | 0.9018 0.9110 | 0.8968 0.9090 | +0.0095 | 0.906 | 0.8 | 99G | 17 13 | 4,003 1,341 | Q.605 Providu | 5 day's vol. | | O. Prov. day | | | | -1,1 | • | 1207 | |
| | ■ \$1881,966 | FUTURE | S (884) 252 | 500 per £ | | | | | | BE | VCHN | | GOVE | | | OND | - | | | |
| | Mar Jun | 1.6576 - | 1,6568 1,6548 | -0.0006 -0.0006 | | 1.65 | 360 | 15,805 5 | 40,558 1,207 | Dec 31 | | Red Date | Coupon | Price | Rid Yield | Day chg yield | Wk chg yieki | Month chg yki | CHO Applica | h ., |
| 1 | Sep | - | 1,6540 | -0.0006 | - | 1,65 | 550 | 260 | 230 | Ametra | | 01/01 | 8.750 | 107.842 128.155 | 5.00 | 2 -0.02 | +0.03 | -0.02 | -230 | •/ |
| l | | | | | | | | • | | Apadria - | | 07/00 01/08 | 5,000 | 103.820 107.220 | 4.00 | <u> </u> | -0.08 -0.05 | -0,11 | -1.78 | • |
| UK INTEREST RATES | | | | | | Belgio | _ | 01/00 03/08 | 5.750 | 100.900 112.830 | 4.05 | - | -0.06 | | -0.16 -1.82 | | | | | |
| | LONDO! Dec 31 | N M | | | | _ | | | | Canadi | | 12/00 06/08 | 5.000 8,000 | 100.5200 108.2500 | 4.8 | -0.01 | -0.17 -0.16 | | +0.70 -1.51 | |
| Į. | | | Over- night | 7 days notice | One Record | | tha _s | Six months | One year | Decree | | 11/00 11/07 | 7.000 | 109.080 120.150 | 4.2 | | | -0.10 -0.10 | -0.19 -231 | |
| ŀ | isterbank Starii Sterling CDs Treasury Billis | rg | 64 - 1 | 5% - 4% - | 646 626 645 | 强 强- | | 語 - 54 項 - 5% | 절 · 점 점 · 34 | Flohes | | 06/00 04/08 | | 101.1600 115.1700 | 4.01 | | -0.06 | +0.34 -0.16 | -0.58 -2.18 | |
| U | Bank BMs Local authority | égs. | 5% - 6% | 6% - 6% | 6g - 5 | ₹ - Ş | 5 7 . 5 | 君 - 5集 54 - 6% | 64 - 64 | France | | 07/00 10/05 10/08 | 4.007 7.790 8.500 | 101.1800 124.8200 136.8900 | 3.57 | , - | -0.01 -0.05 -1.06 | -0.16 -0.11 -0.11 | -0.30 -1.61 -1.85 | |
| Ι. | Discount Maria | | 6% - 6% | | | | | - | • | German | | 04/29 | 5.500 | 111.6800 | 4.76 | +0.01 | -0.04 | -D.10 | -2.85 | |
| ¦' | UK clearing be | nk base | landing rate 6 | Up to 1 | 1-3 | . 3- | | 6-9 | 9-12 | | 47 | 1955 07/08 | 6.500 4.750 | 118,4400 | 3.71 | | -0.11 -0.04 -0.05 | -0.21 -0.12 -0.06 | -0.37 -1.78 -1.91 | |
| ; | Cents of Tax | dep. (£ | 100,000) | · 4 | mosti 6.5 | t mos | | 6.25 | 8.25 | Greace | | 01/28 | 5.825 8.800 | 311.6700 99.5400 | | | +0.01 | -0.34 | -1,60 -4.68 | |
| 11 | Certs of Tgs. dap Avg. tacober rade 1998. Agents sal | معددات أن | t on Dec \$1. 5 | 5552pc. 824 | l firms (seed 1 | Star Export | Pinence. | Made up de | y Dec \$1. | Indiana | | 08/08 | 8.600 6.500 | 111.2200 | 6.93 | +0.03 | -0.01 | -0.83 -0.23 | -3.63 -2.73 | |
| 1 | 1998 to Dec 31, | 1998, Sci | Terres IV & V 6 | 50tps. Files | ze House da | et Rate 71s | pc for De | c 1996 | 9100 LMC 1, | italy | | 09/08 | 6.000 | 115.5500 | 4.02 | | -0.04 | -0.15 | -2.87 | |
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| ١. | | | Dec 31 | Dec 24 | _ | | | Dec 31 | Dac 24 | | | 11/27 | 6.500 | 124.5500 | 4 89 | <u> </u> | -0.03 | -0.18 +0.43 | -3 18 +0.02 | * |
| ľ | Balls on offer Fotal of applic Fotal allocated | | £100m £520m £100m | £100m £399m £100æ | | cepted rat te of disc | | 5.55529 | 5.5913% 5.5913% 5.6702% | _ | | 12/03 06/08 | 4.100 1.800 | 112.2840 98.3080 | 1.52 | | +0.13 | +0.72 | -0.44 -0.58 | į |
| ۱ ا | Win. accepted Wickness at m | bid . | | £36.505 100% | Offer at | next ten cept. bid 2 | | £100g | | | <u></u> | Q3/18 Q5/00 | 2.700 9.000 | 99.0230 | | | +0.17 | +0.87 | -0.62 -0.18 | |
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| Г | | | | | | | | | | | | 07/QS 05/01 | 7.000 7.000 | 102,0575 | 5,47 | -0.04 | -0.08 -2.02 | -0.03 -2.22 | -1.75 +1.25 | |
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Changes to bond and currency coverage

EUROPEAN OVERVIEW

Today's FT brings several was not beginning until Euro Prices page which in the table established? euro on January 1 and the Thursday, after the EU had start of trading in the new announced the locked-in currency today, writes Mar- rates for Emu members.

tor.

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BANKS RETAIL

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and monetary union.

Official trading in the euro tin Dickson, Financial Edi- International money mar-The FT Synthetic Euro some hours in the run-up to

against more than 30 of the established for the euro as the locked-in conversion looking at advance quotarates relative to the euro of tions for the euro itself and means it is no longer needed same process across the the 11 countries which have rates for its forerunner, the joined European economic ecu, which converted on Jan- along with the other features

one-for-one basis.

Dollar cross-rates with Emu were announced. changes to the content of the today, so how were the rates other currencies were then It was designed to be a tables. It is designed to fulfill currencies.

From tomorrow's FT, following the start of trading, we will be publishing a full kets continued to trade for table showing the spot (immediate delivery) and fortable has been dropped. It is the January 1 holiday and ward (settlement at a future

The FT Synthetic Euro has birth of the new currency It was introduced last May,

FTSE Actuaries Share Indices

uary 1 into the euro on a of the Euro Prices page, Bonds, replaces the Eurowhen the initial members of zone Corporate Bonds and

reflect the creation of the They were calculated on the euro against third party currency, giving a general used to establish rates for very broad proxy for the new both their functions, by givlikely trading performance if ety of credit categories and it had already existed.

Euro-zone Currency Convergence table, which was designed to show the gradreplaced today by a table the official birth of the euro. date) values of the euro ual convergence of giving values for the euro. This allowed rates to be against some 30 currencies. world's currencies, as well against the US dollar, disappeared because the table of Government Bond among Emu members, and a Spreads, which showed the

fixed income yield curve.

A new table, Euro-Zone

European series

ing a list of benchmark euroindication of the euro's denominated bonds in a variacross a range of credit We have also dropped the grades. The categories are utili-

> ties, financials, industrials, high yield, sovereigns, suora-nationals and German plandbriefe. Pfandbriefe, which form one of the largest single mar-

kets in the euro-zone, are bonds with very high credit ratings issued by mortgage and public sector banks and backed by mortgage loans or loans to the public sector. Share price for FTSE Euro

300 index companies, d on this page today e last time in ecu, dif ightly from the new Stock Markets page.

The value of the euro € rate (RODE 1.1743 Efe/LFr 132,4654 2.20371 0.7050 200,482 DM 1.955R3 Pta 186,386 Against other currencies € nada C reste € male 4,4045 L1732 1.9145 1,9375 1,4185 43.2418 1.9037 0.5124 42,5654 7.A735 45,6784 37.8314 15,8631 328,8488 4.1217 70358.5725 12015,7750 0.8321

EURO-ZONE BONDS

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|--------------|-------------------------|-------------------|---------------------|------------------|----------------|------------------|----------------------|--|----------------------------|----------------|------------------------|------------------|-------------------|---------------------|--|
| 110 | ···· | | | | | | | Dec 30 | | | | | | | |
| | | | | | | | | National & Regional Markets | Ecu: Istiex | Day's | change points | Yield gross % | क्षां वर्ग ytd | Total sein (Ecu) | |
| 100 | 000 | | | | | | | FISE Eurotop 300 | 1182.74 | -0.74 | -8.88 | 230 | 25.51 | 1217.85 | |
| - 4 | | | - | | A | | | FTSE Eurotop 100 | 2723,87 | -0.92 | -25.21 | 2.35 | 40.15 | 976.39 | |
| | - ▲ | | | | Λ/ | | | FTSE Ebioc 100 FTSE EuroMid | 998.29 1140.39 | -0.23 +0.50 | -235 | 2.08 2.92 | 15.06 | 1013.33 | |
| . 90 | ∞./ ~~ — | | | A | | | | FISE Equilibria Princ | 1215.72 | +1.08 | +5.82 +13.02 | 230 | 2.11 0.53 | 1181.63 1241.45 | |
| • | . M | | ~ N | ~ | | | | FTSE EuroMid Ex UK | 1209.08 | +0.80 | +9.65 | 2.24 | 0.40 | 1231,47 | |
| 80 | . V | η . | ~~ | | | | | FISE Service 300 Realor | ** | | | _ | | | |
| . • | - | 1. | / | | | | | Eurobiac | 1249.69 | -0.12 | -1.58 | 2.03 | 21.57 | 1276,43 | |
| | | W | f | | | | | EURope Ex-Exembles | 109 <u>2.82</u> 1126.40 | -1.61 -1.43 | -17.92 -16.36 | 2.77 2.50 | 35.36 28.30 | 1147,40 1188,60 | |
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| | Sep | · | 19 | 998 | | Dec | | FTSE Exercise leadentry Sc | ochon; | | _ • | | | | |
| See | er FISE Interna | toom · | | | | | | RESOURCES | 863.90 | -0.89 | -7.75 | 3.32 | 29.22 | 903.40 | |
| | | | | | | | | Editación Indicatoria | 732.83 | -1.67 | -12,46 | 4.71 | 14.54 | 748.30 | |
| | | _ | | | | | | Oil, Integrated | 836,80 | -0.88 | -7.23 | 3.27 | 21.73 | 857.06 | |
| | | | | | | | إحسو | GENERAL INDUSTRIES | 1065.18 | -0.58 | -6.18 | 2.50 | 21,44 | 1087.84 | |
| | HREE MONTH E | URO PUTURE | (LIFFE) Eastin | points of 191 | 0% | | | Construction Building Matte & Merche | 883.84 885.94 | +0.51 +0.94 | +4.47 +0.36 | 2.21 2.62 | 11.06 8.96 | 894.12 903.58 | |
| | Oper | n Sett pric | e Change | High | Low | Est. voi | Open int. | Chemicals | 840.68 | -0.83 | -7.D6 | 2.78 | 17.45 | 855.52 | |
| ' Jan | - | 96.796 | -0.010 | | | 0 | 9 | Objective Industries | 992.42 | +1.04 | +16.23 | 2.31 | 22.61 | 1015.12 | |
| يسائر Sep | - | 95,935 | +0.015 | • | • | 0 | 2233 | Bectronic & Bect English Engineering | 935,97 875,22 | -1.74 -0.74 | -10.81 -8.53 | 1.71 3.68 | 5.41 13.02 | 941.07 | |
| Dec | | 96.945 BB.945 | +0.020 +0.375 | : | - | 0 | 11 0 1 686 | Paper, Poky & Printing | 783.40 | -4.05 | -92.25 | 2.85 | 1.21 | 887.30 764.35 | |
| | | | 70000 | _ | - | • | 000 | CONSUMER GOODS | 1229,42 | -0.80 | -9.92 | 1.53 | 18.56 | 1263.24 | |
| | | | | | | | | Automobiles | 920.24 | -0.30 | -2.80 | 2.48 | 10.25 | 928.77 | |
| | HREE MONTH E | | | pound of 100 | | | | Alcoholic Beverages | 959.43 | -1 <i>.2</i> 7 | -12.30 | 2.82 | 17.83 | 980.15 | |
| Street | | | ALLS | | | PUTS - | | Food Producers Household Goods & Texts | 100 <u>2.81</u> 1124.89 | -0.33 +1.40 | -3.35 +15.55 | 1.53 1.68 | 11.84 8.94 | 1014.60 1134.49 | |
| Price | | Feb | Mar Ju | | Feb | المنا | Jun | Healthcare | 933.19 | +3.22 | +29.15 | 1.25 | 1351 | 947.15 | |
| 9709 9712 | | 0.015 0 | 0.025 0.14 0.006 | 0 0,120 0,235 | 0.125 0.235 | 0.135 0.240 | 0.170 | Pharmacouticais | 1091.74 | -1.10 | -12.20 | 1.18 | 5.27 | 1097.57 | |
| | rol. 1002ml, Cells () i | _ | | | U.239 | 6.540 | | Tobacco | 1275.54 | -3.01 | -39.85 | 3.65 | 22,77 | 1299.83 | |
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| - P1 | TSE EUROTOP 1 | | MES (THE) E | CU2D per tul | index pain | <u> </u> | | Distribution | BD1.99 | +3.04 | +23,63 | 2.72 | 11.37 | B11.00 | |
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| Har. | - | 2736. 0 | -19.0 | - | - | Ø | 6011 | Retailers, Food | 1045.66 | -0.24 | -2.48 | 1.96 | 15.00 | 1061.63 | |
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| B B | URO STYLE FTS | E BUROTOP 1 | OO DADEX OPTS | ON (AEO Fer | 10 per inde | ex naint | | Support Services | 1057.55 | +0.30 | -3.16 +3.14 | 1.39 | 24.30 9.87 | 1068.77 | |
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| .be | G P C | | P G P 27 116 40 | C P 83 56 | C P 98 20 | C P 365 110 | C P 30 120 | | 1494.66 | -1.25 | -18.97 | 2.95 | 82.05 | 1585.18 | |
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| | | | | | | | | RIGHERS | (208.29 | -0.87 | -11.16 | 2.58 | 27.96 | 1302.92 | |
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| 0 | THER IN | IDICES | | | | | | inacranca | 1012.86 | -0.62 -0.74 | -/J9 -7.53 | 1,37 | 11.79 | 1025.08 | |
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| | | | _ | | | | top 300 index companies, |
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| | 2723.97 | -0.92 | -25.21 | 2.35 | 40.15 | \$76.39 | World Stock Markets page. |
| | 998.29 | -0.23 | -235 | 2.08 | 15.06 | 1013.33 | THAT IS DUCK HAM BELD PAGE. |
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| مطوه | | | | | | | INTEREST RATE SWAPS |
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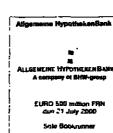






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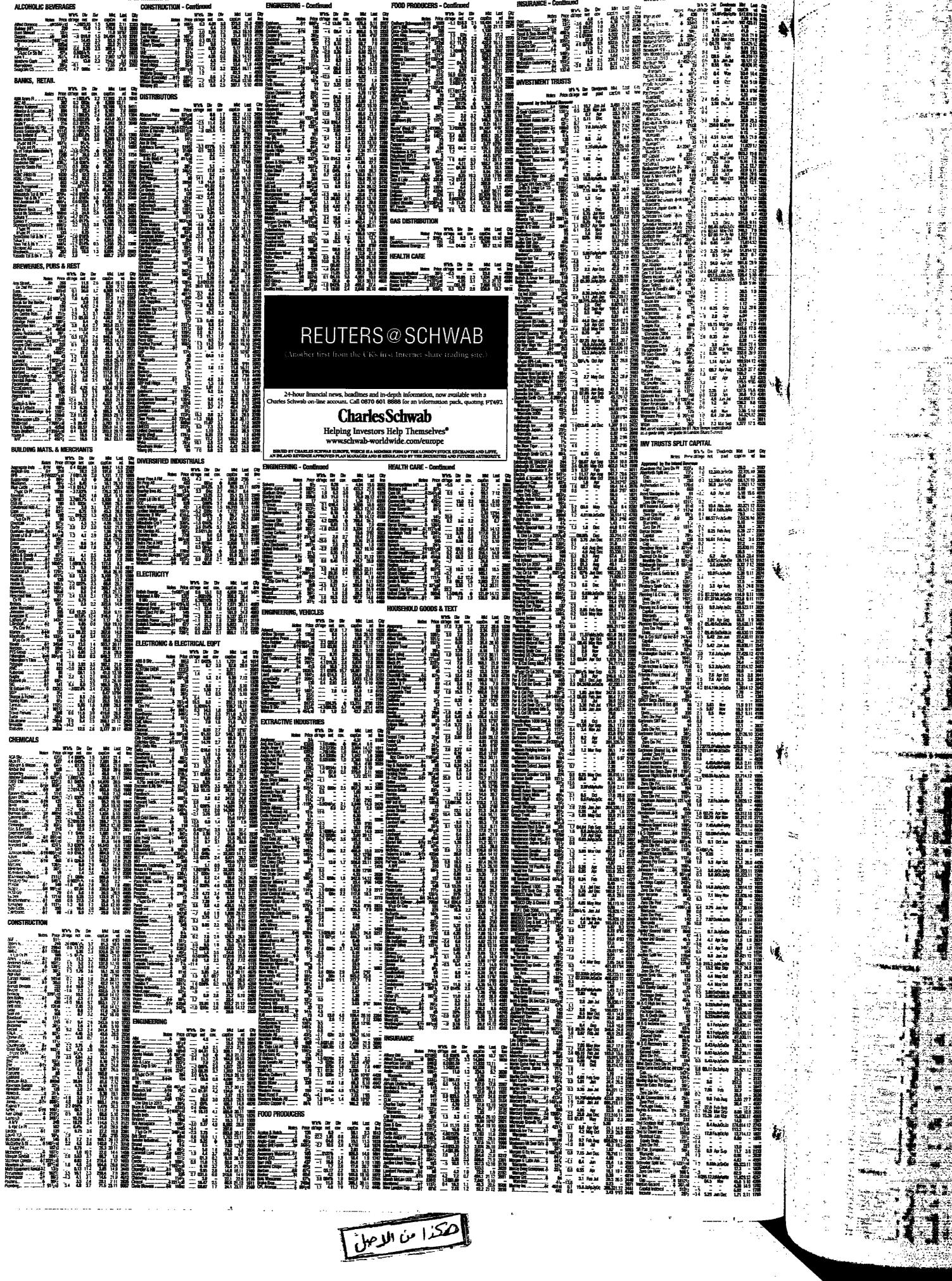
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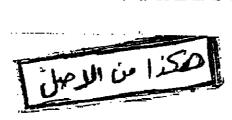
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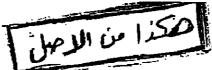
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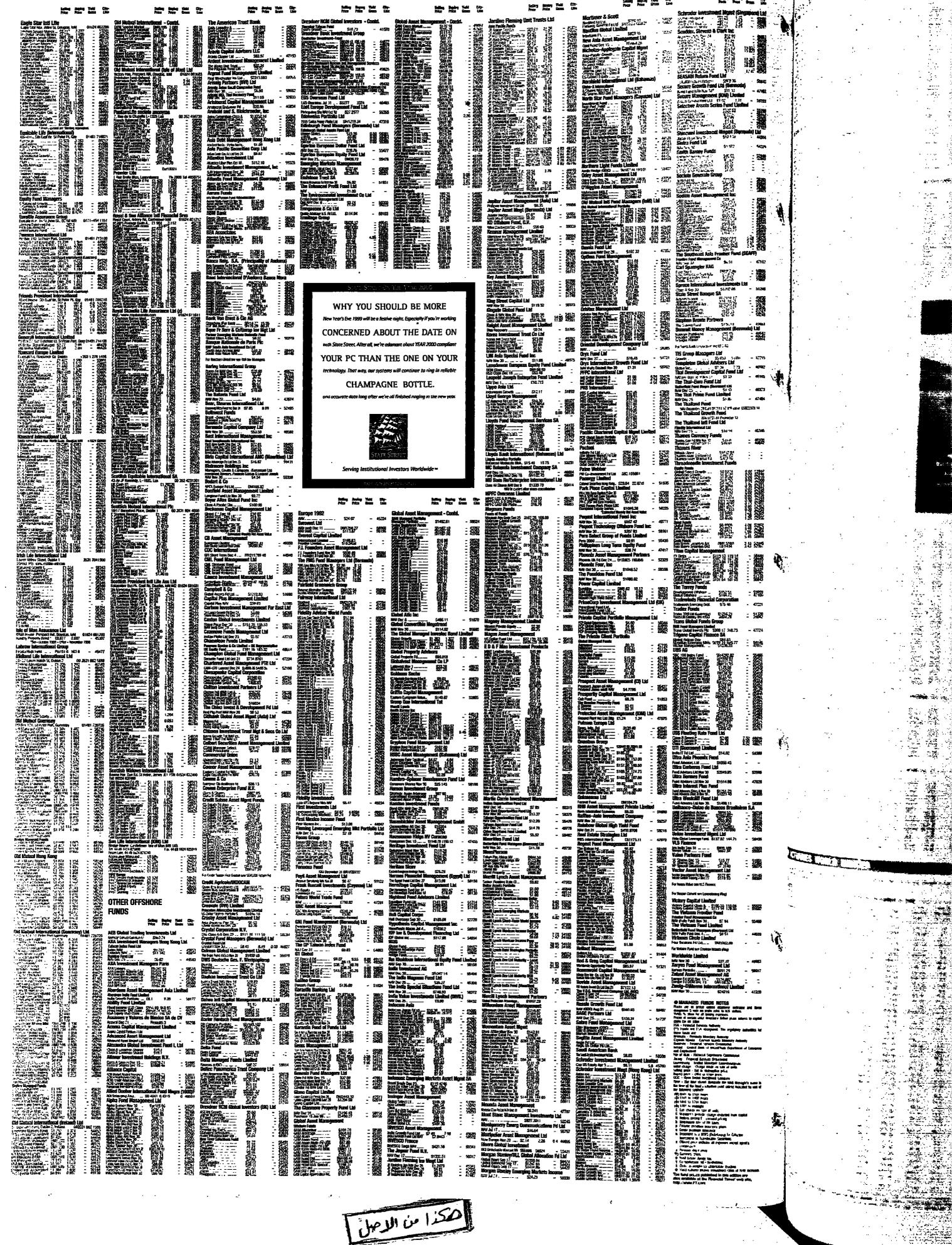
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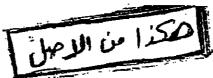
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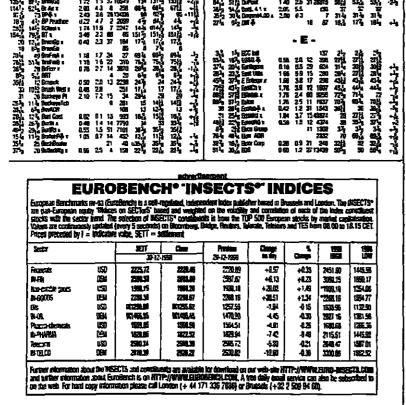
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MONDAY 4

Euro currency debut

Today is the first working day for Europe's euro currency, including closure of first price quotes in euro at the Brussels Bourse, with Jaques Santer, president of the European Commission, and the Belgian prime minister Jean-Luc Dehaene attending. Euro coins and notes will not appear on Europe's streets until 2002 but production is already under way.

Japanese delegation to US

Taichi Sakaiya, director-general of the Japanese Economic Planning Agency, visits Washington where he will meet officials to discuss regional economic difficulties. He will be accompanied by Yukihiko Ikeda, chairman of the Liberal Democratic party's policy research

Soccer chairman decision

Britain's Football Association is to hold a special council meeting to discuss the future of Keith Wiseman, its chairman. The council has already passed a vote of no confidence in Wiseman following allegations that the FA lent £3.2m to the Football Association of Wales in return for voting Wiseman on to the board of Fifa, football's international ruling body. FA chief executive Graham Kelly has resigned and the meeting is also expected to install his replacement.

Japanese PM's new year

Keizo Obuchi, the Japanese prime minister, and members of his cabinet are to mark the new year with a visit to the Ise Jingu Shinto shrine in the Mie prefecture. A cabinet reshuffle and the formation of a new government are expected tomorrow. The reshuffle follows the launch of a Liberal Democratic party-Liberal party coalition. Liberal party secretary-general Takeshi Noda is expected to be among those joining the 18-member cabinet.

Burmese anniversary

Burma (Myanmar) celebrates its anniversary as an independent republic outside the British Commonwealth. Aung San Suu Kyi, opposition leader and Nobel prize winner, is expected to invite more than 1,000 people to her house to celebrate. She was released from house arrest in 1995, but her movements are still restricted by the authorities.

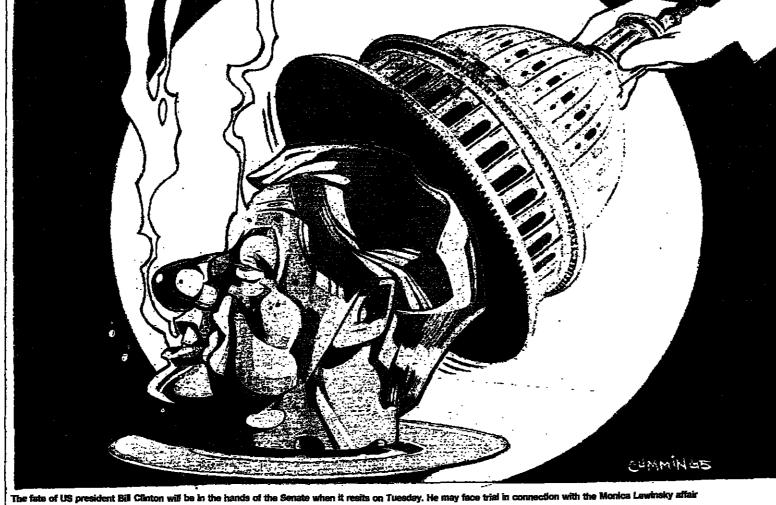
Holidays

Hungary, New Zealand, Russia,

TUESDAY 5

Middle East visit by Japanese Masahiko Komura, the Japanese

foreign minister, begins a week-long in the palestinian. They are expected to discuss the prime minister's "third way" and the



territory. Discussions are expected to cover progress of the Wye River Agreement between Israel and the Palestinians, the opening of Gaza international airport and regional aid.

Europe and peace process

The European Parliament Foreign Affairs Committee will meet the European Union special envoy for the Middle East peace process Miguel Moratinos.

intel antitrust case

Intel, the microprocessor manufacturer, faces an antitrust case brought by the US Federal Trade Commission. The company has delayed the launch of its 64-bit Merced chip until ബർ-2000.

Helidays

Ammenia, Hungary, Slovakia, Sweden.

WEDNESDAY 6

Blair visits South Africa

Tony Blair, the UK prime minister, begins a three-day visit to South Africa at the invitation of Thabo Mbeki, South African deputy president, who met Blair in London in November.

financing of social programmes by the sale of state-owned industries to the private sector.

Irag's Army Day

Iraq commemorates Army Day, marking the founding of the country's armed forces in 1921.

US House of Representatives The newly-elected US House of

Representatives sits for the first time in Washington.

Japanese PM in Europe Keizo Obuchi, Japanese prime minister, begins a week-long visit to

Europe. Germany's opposition meets

Traditional start of the year gathering of Germany's Christian Social Union in the Bavarian town of Wildbath Kreuth.

This year's two-day gathering will the first since the CSU went into opposition at national level following the general election in September. It is expected to give early indications of the make-up of the party's leadership which is due to be voted on at a separate conference in mid-January.

Among the speakers expected at Wildbath Kreuth is Otmar Issing, chief economist of the European Central Bank, who is due to speak on the subject of European financial

policy (to January 8).

Holidays

Austria, Cyprus, Finland, Germany, Greece, Hungary, Italy, Slovakia, Spain, Sweden.

THURSDAY 7

German energy tax talks

Oskar Lafontaine, the German finance minister, is scheduled to meet Karel van Miert, European competition commissioner, for talks about energy

The Commission says the Bonn government's plans to exempt energy-intensive industries from increased fuel taxes - after complaints that they would be put at a disadvantage to European competitors amount to an unfair subsidy.

Discussion is also likely to include Lafontaine's ambitions for EU tax harmonisation, which is partly designed to protect German industry from competition.

Colombia peace talks

Victor Ricardo, the Colombian government's peace commissioner, is scheduled to meet Manuel Marulanda, commander of FARC, the largest of the country's guerrilla groups, in an attempt to revive a faltering peace process.

The meeting at San Vicente del Caguan - the first official contact

between the two parties for six years - is seen as the last hope for a political solution to a conflict that has killed more than 35,000 people during the past 10 years.

EU environment meeting

The European Union holds two days of talks in Brussels about the environment with the six countries which will be in the next wave of accessions: Poland, Hungary, the Czech Republic, Slovenia, Estonia and

Cyprus.
Environmental issues, including those of water quality and nature protection, are among the three most difficult areas in the screening talks, which cover the 37 chapters of European law. Talks about the issues of transport and agriculture have already started.

Salzburg conference

Austrian Chancellor Viktor Klima's Social Democratic party opens its annual conference in Salzburg (to January 9).

Tax reform and forthcoming provincial, European and national elections are expected to dominate discussion.

Holidays

Eritrea, Ethiopia, Georgia,

Liberia, Macedonia, Moldova, Russia, Syria, Ukraine.

FRIDAY 8

UK boat show begins

London's International Boat Show opens to the public at Earl's Court to January 17). The show, with more than 600 exhibitors, is expected to attract 180,000 visitors.

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D'Alema visits the Vatican

Massimo D'Alema, Italy's first prime minister to have been a Communist makes an official visit to Pope John Paul II and the Vatican.

Havana marks anniversary Cuba celebrates the 40th anniversary

of Fidel Castro's entry into Havana after the revolution.

Seoul searching

South Korea's parliamentary hearings to establish the causes of the country's economic crisis are scheduled to begin

Holidays Bosnia, Moldova.

SATURDAY 9

Nigeria's new year Nigeria continues its gradual progress towards democracy in the wake of the death of military head of state Gen Sani Abacha on June 8 last year with elections for governors and assemblies Partiamentary polis are scheduled to follow on February 20 and presidential elections on February 27. Nigerians face a difficult upon the face and infinite transfer. in all the country's 36 states. face a difficult year if the country's oil

North American auto show

income continues to fall steeply.

The North American International Auto Show, the US motor industry's premier event, opens to the public in its home town of Detroit. This year's show will mark the debut

of the newly-merged DaimlerChrysler. co-chairmen Jürgen Schrempp and Bob Eaton may be expected to make a big effort. A resurgent Ford, run since January

by Jac Nasser, and a recovering General Motors are unlikely to leave the field entirely to the competition.

SUNDAY 10

Kazakhstan elects PM

A presidential election is scheduled to take place in Kazakhstan.

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Edited by Roger Beale and Martin Mulligan Fax 44 171 873 3196

ECONOMIC DIARY

Monday: The National Association of Purchasing Managers' composite ind in the US is expected to have shown a mild improvement in business conditions during Decemi Tuesday: Consumer confidence in France remains in negative territo and may even have deteriorated in December according to the latest figures published. Wednesday: As the Bank England holds its monthly monetary policy meeting. Purchasing Managers Ind measuring UK service sec business activity is likely remain below the crucial "break-even" mark during December, for the second consecutive month. Thursday: Wholesale price deflation remains under w in Japan with the wholest prices index for December forecast to show another in the level, thanks to the recession and the recent strength of the yen. Friday: The labour market the US is likely to have exhibited continued signs

| Other economic news | ı | | s | tatistics | to be r | eleased | this v | veek | | |
|---|----------------|-----------|-------------------------------------|--------------------|--------------------|-----------------|---------------|--------------------------------------|--------------------|--------------------|
| Monday: The National Association of Purchasing | Day Refease | d Country | Economic Statistic | Median Forecast | Previous Actual | Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
| Managers' composite index | Mon | Germany | Dec Consumer price index** | | 47.60 | Thus | Japan | Nov overall personal consum expend* | · | -1.0 |
| in the US is expected to have shown a mild | Jan 4 | UK | Nov consumer credit | | £1.2bn | Jan 7 | UK | Dec CPI distributive trades | | -9 |
| improvement in business | | UK | Nov final M4" | | 0.2% | | US | Initial claims 2 Jan | | <u>.</u> |
| conditions during December. Tuesday: Consumer | | UK | Nov final M4** | | 8.4% | | US | state benefits 26 Dec | | |
| confidence in France | | UK | Dec Chart'd Inst of Purchasing Mgrs | | 41.1 | | Canada | Dec help wanted index | 144 | 144 |
| remains in negative territory, | | บร | Dec Nat Assoc of Purchasing Mgrs | | 46.8% | | US | Nov factory orders | | -1.6% |
| and may even have deteriorated in December | : | US | Dec domestic light truck sales | | 6.7m | | US | Nov factory Inventories | | 0.6% |
| according to the latest | | LIŞ | Dec domestic auto sales | | 6.5m | | US | M2 - week ended 28 Dec | | |
| figures published. Wednesday: As the Bank of | Tue | Japan | Dec auto sales" | | -15.9% | | Japan | Dec overall wholesale price index* | | -0.5% |
| England holds its monthly | Jan 5 | Japan | Dec forex reserves | | 0.3% | | Japan | Dec overall wholesale price Index | | -3.5% |
| monetary policy meeting, the Purchasing Managers Index | | France | Dec houshold survey | -12 | -10 | | Japan | Domestic wholesale price index** | | -2.2% |
| measuring UK service sector | | Italy | Nov producer price index** | | -0.9% | Fri | Japan | Nov coincident index | · | 60.0% |
| business activity is likely to remain below the crucial 50 | | UK | Dec provisional M0* | | 0.4% | Jan 8 | Japan | Nov leading differential index | | 55.6% |
| "break-even" mark during | | UK | Dec provisional M0** | | 4.8% | | Italy | Dec final consumer price index* | | 0.1% |
| December, for the second consecutive month. | | UK | Dec official reserves | | \$0m | | Italy | Dec final consumer price Index** | | 1.5% |
| Thursday: Wholesale price | | US | STM-Schroders 2 Jan | | | | Germany | Dec unemployment pan-Germany | 6k · | 4k |
| deflation remains under way | | US | Nov construction spending | | 0.3% | | Canada | Dec employment | 18k | 103k |
| in Japan with the wholesale prices index for December | | US | Rectook 2 Jan | | | During 1 | the week | | | |
| forecast to show another fall | | Ireland | Dec EBR IEPM | | | | Germany | Nov VDMA orders 3 months** | | -11.0% |
| in the level, thanks to the recession and the recent | Wed | UK | DEC CIPS services survey | | 49.1 | | EMU | Nov unemployment rate | | 10.8% |
| strength of the yen. | Jan 6 | Canada | Dec foreign reserves | | C\$3.2bn | | Germany | Nov industrial production pan-German | y-0.5% | 1.4% |
| Friday: The labour market in the US is likely to have | | Canada | Nov industrial prod' price index* | -0.1% | 0.7% | | Germany | Nov menufac output pan-Germany | | 1.6% |
| exhibited continued signs of | | Canada | Nov raw materials price index | -0.7% | -0.3% | | Germany | Nov industrial production west" | | 1.3% |
| strength during December, with the consensus forecast | | US | Nov new home sales | | 851k | | Germany | Nov industrial production east | | 3.7% |
| for unemployment falling to 2.2 per cent. | | บร | Dec NAPM (non-manufacturing) | | 53,0% | 'month on m | onth, "year o | year Statistics, | courtesy Standar | rd & Poor's MMS. |

ACROSS t Medication, operation and

- rest (8)
 5 The host is a soldier Trot-sky embraced (6)
 9 Virgin Queen entered to
- 10 Complain to French joiner
- getting reprimand (6) 11 Disdain to cheat and
- 18 A greeting created a diffi-cult situation (3-2-3-2)
- 22 Air can upset a plant (6) 23 Learned about colour many years ago (5.3)
 24 Edward, swallowing contrived tale, is cheerful (6)
- 25 Wood produces a fire in the
- chimney (8) 26 Oriental's about to speak of a jacket (6) 27 She hides in a hollow from
- DOWN:
 1 The first magician to jump
- 2 Metal detected in gigantic
- breadwinner (6) Business takeover (10)

- 16 Drink braces ashen trainee in ballet (4.4)
- 20 Weep uncontrollably with
- 6 A scrutineer, formerly a prospector (8) 7 lt's understood spirit's
- briefly showing means of payment (6,4). 15 Don eats warm fowl (8)
- 17 Specific study on an island (8) Soak an explosive device that's alight to start with
- an American native (6) 21 Decorative feature origi-
- There's hesitation about
- seduce (8)

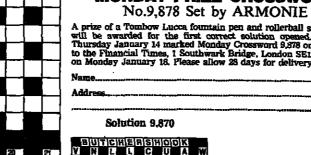
 12 Ridin' to Island in the Pacific (6)

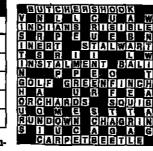
 14 A player in a play, Heather follows diet (10)

 15 Strutheer, formerly a prospector (8)

 7 It's understood spirit's allowed (8)

 8 It's put about. "Watery drinks may often be sweet"





MONDAY PRIZE CROSSWORD

A prize of a Tombow Lucca formtain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday January 14 marked Monday Crossword 9,578 on the envelope, to the Financial Times, 1 Southwark Bridge, London SEI SFIL. Solution on Monday January 18. Please allow 28 days for delivery of prizes.



Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Properties | Post Propert Power 19.65 2 17.76 6 19.55 11.12 7 11.12 7 11.12 7 has provided to the control of the petrick (1975) (

JOTTER PAD

